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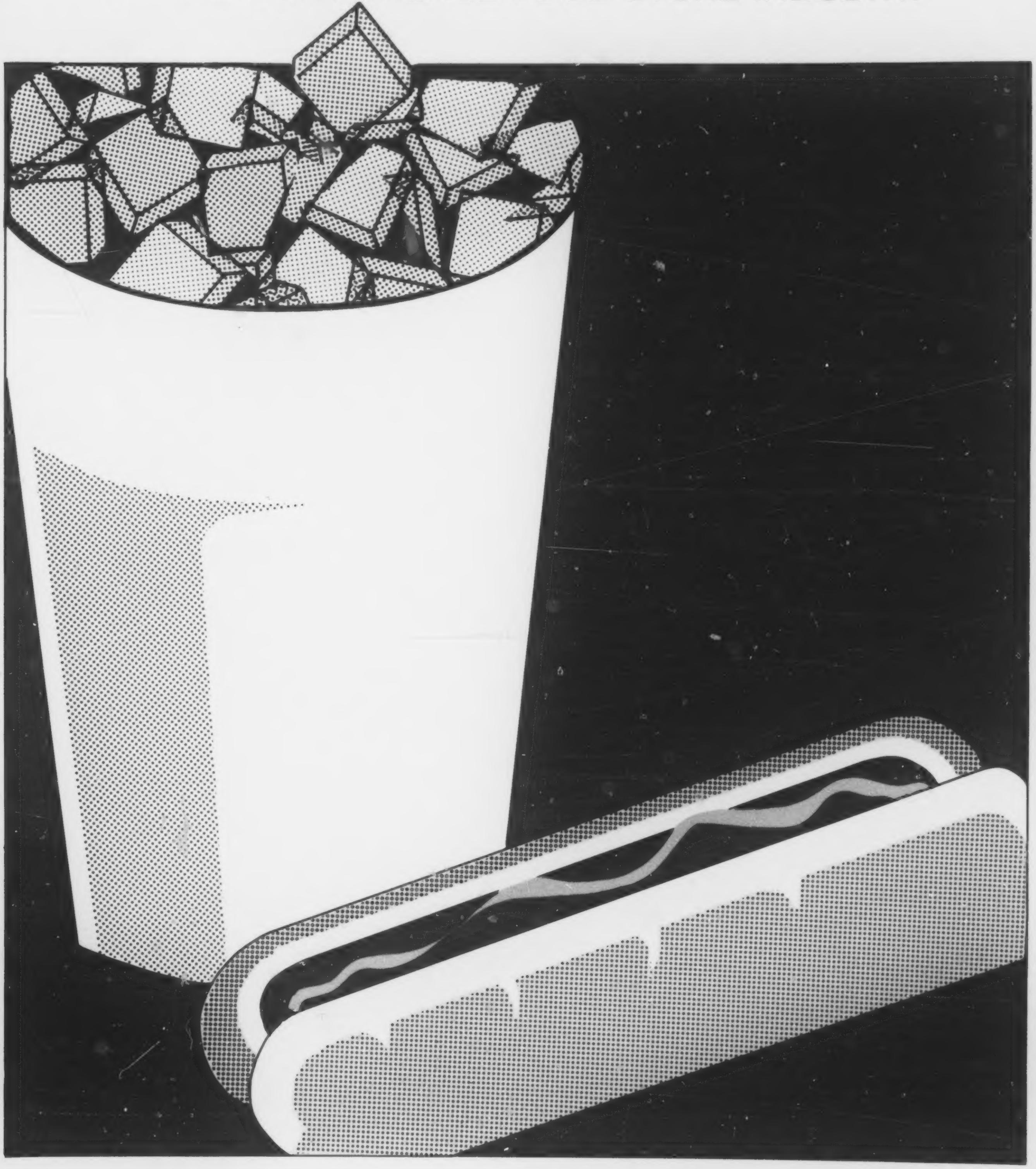
THE SEVENTEENTH ANNUAL DOLLARS PER DAY SURVEY OF THE CONVENIENCE FOOD STORE INDUSTRY



AND WHAT THE 12 LARGEST OIL COMPANIES HAVE TO SAY ABOUT GASOLINE MARKETING IN 1987

TABLE OF CONTENTS

Survey Winner 1

17th Annual Survey Results; methodology

Interview with John Roscoe 5

Results for the Surveyed Chains

Casey's General 13
Circle K 17
Southland 21
Sunshine Jr. 33
Munford 37
Silcorp 42
Dairy Mart 47
National Convenience Stores 51
7-Eleven Japan (not ranked) 61
Stores owned by Other Publicly Held Companies 64

Dollars Per Day Schedules 65

Profits, Sales, Expenses, and Margins 66
Sales and Profits in Constant Dollars 71
Changes in the Number of Stores 78
Industry Leaders: their Remuneration and Holdings 82
Corporate Financial information & Stock data 85
The Effect of Southland on the Survey 89
Electrical Costs—a major factor 91
DPD historical summary 94

Results of other Retail Offers: 98

Claire's, The Limited, Walgreen's, McDonald's, Toys R Us, Wal-Mart, Pep Boys, Weis Markets, Giant Foods, The Price Club.

Gasoline in Convenience Stores 111

Results for the Surveyed Chains

Oil Companies at Retail: What They Say

National Market Statistics 121
What the Twelve Largest Refiners Say 131

Channels of Trade 159

Philosophy and Retailing 163

The Seventeenth Annual Dollars Per Day Survey

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Errors and Omissions: Although the staff has gone to great lengths to verify the information included in this Survey, there may still be some errors and omissions. Please send your comments and corrections to **The Dollars Per Day Survey,** P. O. Box 886, Benicia, California 94510.

ABOUT THE AUTHOR

John Roscoe operates a chain of compact mass merchandise stores in California. He was the first to sell gasoline using a remote controlled, self-service pump.

Mr. Roscoe has published the Dollars Per Day Survey every year since 1971. The Survey is generally regarded as the most accurate source of information on the C-store industry. Since 1985, the Survey has been combined with "What the 12 Largest Oil Companies say about Gasoline Marketing."

Companies interested in employing his services as a consultant should contact Mr. Roscoe at (707) 745-6691.

SEVENTEENTH ANNUAL DOLLARS PER DAY SURVEY
OF THE CONVENIENCE FOOD STORE INDUSTRY

The Dollars Per Day Survey presents the financial and operating results of the leading publicly held convenience food store chains on a dollars per store per day basis. The dollars per day method reduces the operating figures of the chains to a common denominator: store accounting days. Each chain is analyzed on this basis and then ranked in comparison to the other chains.

SURVEY WINNER: CASEY'S GENERAL STORES, INC.

Casey's General Stores of Des Moines, Iowa is this year's winner of the Dollars Per Day Survey. Casey's earned pretax dollars of $83.17 per store per day to win the survey.

Casey's operates 586 stores in eight midwestern states. They went public in 1983 and entered the survey at that time. They finished 3rd in 1986.

SURVEY PARTICIPANTS

The chains included in this Survey are the largest chains in the business. To be included in this report, companies must meet the following criteria:

1. They must be publicly held.
2. Store operating figures must be adequately separated in the annual report from other lines of business in which the company might be engaged, so that reasonable deductions can be made concerning store operating results.

The following chains are analyzed in this report:

1. Casey's
2. Circle K
3. Southland
4. Sunshine Jr.
5. Munford
6. Silcorp
7. Dairy Mart
8. National Convenience

All of the data used is easily verifiable. It is derived from either the chain's annual report to the stockholders, the proxy statement, or the Form 10K filed with the Securities and Exchange Commission.

SURVEY METHOD: Store Sales and Gasoline Sales

Stores sales are considered to be merchandise sales made from the store. These include the sales of fast food, packaged goods, and non-food merchandise sold in a convenience store.

Gasoline sales are sales of petroleum products, usually made from remote controlled dispensing systems that are activated at the checkstand inside the store.

Stores sales for all of the chains are comparable. We have separated store sales and gasoline sales and have excluded gasoline sales from our sales computations and comparisons. Gasoline sales and gallonage figures are examined in Part II of this report.

Companies are ranked in the Survey to show relative performance among chains.

THE SEVENTEENTH ANNUAL DOLLARS PER DAY SURVEY

THE CONVENIENCE STORE BUSINESS RANKED BY DOLLARS OF PROFIT PER STORE PER DAY

DOLLARS PER DAY RANKING	COMPANY	YEAR ENDED	NUMBER OF STORES	STORE DAYS	SMALL FOOD STORE SALES	AVERAGE SALES PER STORE PER DAY	SALES INCREASE PER STORE PER DAY	PERCENT OF SALES INCREASE IN $DPD SALES	PRETAX PROFIT	INVENTORY VALUATION METHOD	AFTER TAX PROFIT	AFTER TAX PROFIT AS A PERCENT OF STORE SALES	PROFIT PER STORE PER DAY PRETAX	PROFIT PER STORE PER DAY AFTER TAX
1	Casey's	4-30-87	586	204,432	$115,266,017	$926	$75	9%	$17,003,000	LIFO	$8,609,000	—[1]	$83.17	$42.11
2	Circle K	4-30-87	3,507	1,255,485	1,558,200,000	1,241	20	2%	94,296,000	FIFO	49,430,000	3.17%	75.18	39.37
3	Southland	12-31-86	7,672	2,772,434	5,638,352,000	2,003	140	7%	164,106,000	LIFO	133,746,390	2.37%	59.19	48.24
4	Sunshine Jr.	12-26-86	330	121,950	80,560,000	661	13	2%	5,529,460	LIFO	2,889,350	3.59%	41.57	21.73
5	Munford	1-1-87	792	298,298	286,941,540	962	-48	-5%	8,071,000	FIFO	4,439,050	1.55%	27.05	14.88
6	Silcorp	12-28-86	1,053	384,434	403,353,470	1,041	63	6%	4,848,660	FIFO	1,681,920	.42%	12.51	4.33
7	Dairy Mart	1-31-87	1,207	369,863	424,782,257	1,148	1	—	-4,049,735	LIFO[2]	-3,515,735	—	-10.95	-9.51
8	National Convenience	6-30-87	950	348,214	515,000,000	1,478	81	6%	-9,898,000	FIFO	-5,445,000	—	-28.42	-15.64
Totals & Averages			16,097	5,755,110	$9,022,455,284	$1,568	$ -18	-1%	$279,906,385		$191,834,975	2.13%	$48.63	$33.33

Sales shown on this schedule are for food stores only. All gasoline sales have been excluded.
Gasoline sales for the year were $3,273,749,876.
Total sales for both food and gasoline were $12,296,205,160.

1. Casey's store sales for company operated stores only.
2. Some of Dairy Mart Inventories at FIFO

THE CONVENIENCE STORES SEGMENT OF THE NATIONAL FOOD STORE BUSINESS

1976 THROUGH 1986

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Total Food Store Sales	$153 Billion	$163 Billion	$180 Billion	$199 Billion	$221 Billion	$241 Billion	$252 Billion	$264 Billion	$279 Billion	$292 Billion	$305 Billion
Total Convenience Store Business	$7.4 Billion	$7.4 Billion	$8.7 Billion	$10 Billion	$12.4 Billion	$14.1 Billion	$15.1 Billion	$16.5 Billion	$19.0 Billion	$20.4 Billion	$21.6 Billion
Convenience Store Business as a % of Total U.S. Food Store Business	4.84%	4.53%	4.84%	5.01%	5.61%	5.86%	5.99%	6.25%	6.81%	6.98%	7.08%
Total Number of Food Stores	183,700	175,820	169,500	168,900	167,100	165,000	162,000	158,000	156,000	154,000	152,000
Total Number of Supermarkets	32,700	33,120	33,400	33,600	34,900	28,680*	28,950*	29,950*	30,175*	30,505*	30,600
Total Number of Convenience Stores	27,400	30,000	32,500	34,125	35,800	37,800	38,700	40,400	42,950	45,400	47,000
Convenience Stores as a % of Total Food Stores	14.9%	17.0%	19.2%	20.2%	21.4%	22.9%	23.9%	25.6%	27.5%	29.5%	30.9%
Average Annual Sales—Convenience Stores	$270,802	$246,000	$268,000	$293,040	$346,368	$373,544	$390,180	$408,415	$442,375	$449,559	$459,574
Average Daily Sales—Convenience Stores	$741	$673	$734	$802	$949	$1,023	$1,068	$1,118	$1,210	$1,232	$1,259
Consumer Price Index—Urban Consumers 1967 = 100	175.3	187.2	207.7	233.2	260.5	282.5	293.1	299.1	316.1	328.4	333.1
Average Daily Convenience Store Sales adjusted for inflation over 1974 base year	660	561	552	537	569	566	568	584	535	524	528

*Supermarket Qualifications—to include only stores doing over $2,000,000 annually

Convenience Stores' increase in percentage of total food store business from 1974 to 1986—+75%

Source of Information:
Progressive Grocer Annual Survey of Food Stores. (Number of stores estimated significantly below that of any other, including the $DPD Survey.)

SURVEY METHOD: How Dollars Per Day figures are computed:

Figure operating store days:

Because the actual dates of new store openings are not known, all stores opened within the operating year were computed at the 1/2 rate. We have used the 1/2 year basis for store closings since the 12th Survey.

Figure Dollars Per Day:

Store days are divided into other operating figures shown in the annual reports to reduce these figures to a dollars per day basis. Any operating figure — sales, expenses, pretax and after tax profit — can be divided by store days to show its average dollars per store per day.

In this report, $DPD signifies dollars per store per day.

What This Shows:

When compared by company, dollars per day shows the relative performance of the surveyed chains. We also show the growth rates of pretax and after tax profits in current and constant (1971 = 100) dollars.

The Primary Purpose of the Survey:

The purpose of the $DPD Survey is to show and compare pretax dollars of the leading chains in the industry. We hope this will create an awareness of the profitability of the small food industry and point out areas where operators can increase the profitability of their chains.

Variations in Accounting Methods:

Since all data is obtained from the audited annual reports of the companies and/or their Forms 10K, and is based upon figures given by the chains themselves, we do not make allowances for variations in accounting practices among the chains. Where assumptions have been made, they have been indicated clearly on the computation sheet for each company.

Compute Your Own Dollars Per Day Figures:

You can compute dollars per day for your company and compare them with the leading companies in the industry.

You will need these figures:

Number of stores you operated at the beginning of your last year,
Number of stores you added during the year,
Total sales,
Total pretax profit,
Total after tax profit.

AN INTERVIEW WITH JOHN ROSCOE, AUTHOR OF THE DOLLARS PER DAY SURVEY

Since you are no longer in the convenience store business, why do you continue to produce a survey of the convenience store business?

I'm often asked that question. I started the report in 1971. I used to go to convenience store conventions. I spent a lot of evenings listening to operators tell how smart they were and how much money they were making. I started the Survey to find out how much money they were really making, and how much you should make in the convenience store business. I found out that operators tell you how they do in their best store, not how well they do on the average.

You've told me why you started the report, not why you continue to write it.

When I started distributing the report, it made some of the operators very unhappy. It made them so unhappy, I figured I must be on to something. I dug a little deeper to improve the report. I discovered that convenience store operators have great hope, not great results. Happiness was living with their dream and sharing it with others. Unhappiness was having reality pointed out to them.

As I wrote the report each year, I began to understand the dynamics of the business. I was able to combine the realities I faced as a convenience store operator, with the optimism of the other operators, and an objective review of the financial results of the public companies. If you've read the Survey over the years, you've sensed some of my disillusionment with the convenience store business.

Yes, but why do you continue to write the report?

Because I learn things every year when I spend some time concentrating on this type of retailing. There is a convenience factor in all retailing. Location and convenience may be the most important elements in retailing success. It's interesting to focus on a group of companies that have forsaken all other principles of retailing and tried to build large businesses on this concept.

It's become particularly interesting during the past ten years when the cost of providing convenience has risen so spectacularly. This change has sped up a process that might otherwise have taken years to complete. It's interesting because I'm still in the retail business. At one time my only knowledge of retailing was the convenience store concept. I find it worthwhile to test my present perspectives against convenience retailings results.

Do you have a staff that helps in the preparation of the survey?

No, I don't have a staff. I work alone and the computations are made on a hand held calculator. When you work alone, you increase the chances for error. I try to concentrate on what the words and the figures in the reports mean, rather on the precision of the numbers. I'd appreciate corrections or any other input from Survey readers.

How do you feel about the convenience business today?

Pretty good. There will always be a lot of convenience business. There are an increasing number of places where there are people that want to buy something right now. There are a lot of people who want to be in the business of filling this need and want to operate in the places and at the times customers want to buy things.

I mean how do you feel about the convenience store industry?

I'm not sure there is or can be a convenience store industry. Convenience is a simple idea. Drive-in stores, the predecessor of convenience stores, were a simple idea. Supplying a few goods at a specific location to people in a vicinity is a simple idea. Twenty-five years ago we came up with the idea of calling it a "Convenience Store" and developed a "Convenience Store Industry." The simple people in this simple business started taking the idea and themselves seriously. They institutionalized themselves, not the concept.

We were all impressed with 7-Eleven. 7-Eleven had a chain. We could have a chain. Everyone opened stores and supplied convenience in places they thought would support a store. Success was measured by the number of stores you operated. It was still a simple business and most stores paid their way.

The convenience function is still a simple function. It hasn't changed much over the years despite all you read about "the sophistication of the industry" in the trade press. The biggest change in the business has been the change in the cost of supplying convenience on a professional, big company, chain basis.

You're not going to give me the "this is not a very good business pitch" again, are you?

I'm afraid I am. Let's face it, the record is not good. The failure rate of locations supplying convenience is incredible. The three chains that operated the greatest number of stores in 1975 (over 5,000) have closed that many stores since 1975. Something isn't working right in this business. The closure rate alone shows there has been great turmoil among the operators of multiple locations.

Yes, but they are still in business.

Some are, but a great many businesses are no longer with us. A great many operators left the business without the bags of money they expected to take with them. The Dollars Per Day Survey started with 10 chains in 1971. Today there are 8 chains in the Survey. During the past 17 years Utotem, Dillon, Li'l General, Conna, Hop-In, Stop-N-Go (Trotwood), Shop & Go, and Mini Mart have passed through the Survey. These companies no longer exist as separate identities.

The good news is that most of them have gone voluntarily. Many of the locations from which they dispense convenience are still in operation. The bad news is that of the 8 chains still in the Survey, most of them are going to be with us in their present configurations only temporarily.

What do you mean by that?

Well, let's recap my general feelings about the chains still in the Survey.

First, Southland: They are obviously in a period of transition. I don't begin to understand what they are doing, but it looks like pride has overcome reason. For years they were the financial strongman of the business and this gave them a lot of advantages. It looks like they are giving up their financial advantage to rely on entrepreneurial skills. At this stage of their development, it's a bad trade.

I want to be sure to give Southland a lot of credit. They started as a milk and ice processing company. They took a few crummy stores with roll-up garage doors and made them into a big business. They saw an opportunity and they capitalized on it. They didn't, however, invent the wheel. They have not been great innovators, and they have generally been slow copiers.

They aren't so successful that they need to create myth and build legends. This year's Annual Report is particularly bad. They are trying to rewrite the history of the business. I know from the things I've been involved with that they didn't create many of the programs for which they now take credit. Their chance for future success is dim if they really believe what they are saying. If their view of the future is as clouded as their remembrance of the past they are in big trouble.

Circle K: They have been successful for years by staying close to the basic principles of supplying convenience (a strict trade off between cost and revenues). Nothing they are doing on purpose today makes sense. "As ye sow, so shall ye reap." Normally, this chain would have a lot of time before it begins to have trouble, but this management is so fast on its feet that they can accelerate their own demise.

Sunshine Jr.: Does anyone believe this chain and 7-Eleven are in the same business? Take a look at the Gross Margin developed per store per day by the two companies. Take a look at the difference in operating costs. This chain shows you can ride a good thing for a long time. Time has passed, however, and neither this ownership, this management, nor this chain will be with us long. I hate to see them go. Their figures were always easy to compute because they're small and simple.

Munford: They've announced they want to go. They've committed the classic mistake of selling their good assets to keep their bad ones. This has been a pattern by most of the old line companies. Fairmont, Silcorp, Munford, and now Southland have all sold what could be sold to keep their stores. It's a pattern of withering away in old line companies, sell the real estate to get more action.

But who is going to take Munford out? What this "industry" needs is some moneyed newcomers without good sense. My advice to Munford is to try to find 792 buyers for their 792 stores.

Silcorp: I tried to analyze the store results of this company for years. Their other operating divisions all got in the way. Fortunately, they no longer own those assets and I can isolate and analyze their convenience stores. They look like the Munford of the North. I expect they'll continue to look good and do poorly for several more years. They have the most boastful of all Annual Reports this year. It's like whistling in the dark.

Dairy Mart: The principal shareholders of this firm deserve an award for courage. They've rushed into companies and stores where even Circle K wouldn't tread. One good wave can take them out of the business. Fortunately, they now have the benefit of the same counsel that made Conna such an outstanding company. Don't count on this chain and many of these stores being with us a long time.

National Convenience: This chain won't be with us in their present form for long. They've done a lot for the business while they've been around. They have their pretentions, but they've given the group some class, too. I think it all started with the logo wars. The chain with the best looking logo had the most prestige. Then it escalated to store graphics. The cost was still pretty cheap and there was a cost/benefit tradeoff. Now it's architecture and buildings and the costs are tremendous.

The convenience business is still a low margin dollar business. You can't pay for those buildings with ATM's, video rentals, and the sale of lottery tickets. You can't do the same job in a million dollar facility you did in a $100,000 one and expect to stay in business. I don't want to put the hex on these people. I'm afraid they've done it themselves.

So far National Convenience has bested all my predictions. They were doing so badly in their 300 plus Houston stores they bought 270 more from Southland. This ought to be a good test of the Market Dominance theory.

Don't you like anyone?

Yes I do. I really like this year's Dollars Per Day winner, Casey's General Stores. I've never seen any of their stores, so I don't know how well they execute, but I like what I read and what I compute. Here's why:

1. They have a philosophy. They operate in small towns. They supply some of the general store and some of the restaurant function in those places. They may be the Wal-Mart of the convenience store business.
2. They have low costs. They state they can buy the land, buiding, equipment and inventory for about $250,000. These are 10 to 15 years ago costs. They own most of the real estate.

3. They appear to have retailing discipline. As opposed to other convenience retailers, there are some things they won't do and don't sell.
4. They have more protection from competition. Location is not as important in a small town. The major oil companies aren't likely to open competitive units in these towns.

So you think small towns have an advantage?

Yes, gasoline margins are generally a bit better. Inventory shortages are often less because people who have their roots in an area generally behave better. More important, the costs of operation are generally less. Convenience stores have to have costs that match their function. The management of Casey's seems to understand that. They are young enough to stay in the business a while, and they're getting rich. It's refreshing to see a success story. It looks like this company can stay in the business as long as it wants to stay in the business.

Is there anyone else you like?

I like small operators. The convenience function is filled best by single store operators who work in the store. The chains incur huge supervisorial and administrative costs in trying to control their stores. The costs get overwhelming in relation to the function being performed.

There are a lot of smaller operators. 62% of the member companies of the National Association of these stores have less than 10 stores. This may be overstated. Having served as treasurer of that organization I know that this is an area operators understate their size and importance in order to reduce their dues payment. They only pull out their boasting figures at cocktail parties. But there will be more single store operators as the chains continue to liquidate their present holdings.

Chain operators have some big disadvantages. There are few economies of size, and the further a merchant gets away from the sales floor the more clouded his vision. Self importance, professionalism, and pomposity are not important to the customer that wants something at a specific time and place. Small operators that refrain from taking on the cloak and costs of success will always supply the convenience function most economically.

What else is happening in the convenience store business?

Well, the big story of course is the oil companies.

They control the best convenience locations in the country. What they do with these locations affects everyone else in the business.

OK, but why don't they just buy the convenience store companies?

Because the stores these companies operate don't sell enough gasoline. The ratio of problems to gallons sold is too high in a conventional convenience store. Oil companies want to sell lots of gasoline. They have crude oil and the refining capacity to make and sell lots of gasoline. They'd like to sell it as efficiently as possible. They don't mind subsidizing the sale of those gallons a bit, but they don't want problems and they don't want to put up with as many problems as there are in conventional convenience stores.

Give me an example.

Oil companies don't understand theft. They particularly don't understand employee theft. What convenience store companies call inventory problems, oil companies call defalcation. Inventory shortages of the size common in convenience store companies are a matter for the Board of Directors of an oil company. As someone told me, "You don't steal from the Exxon Corporation."

Then why have they gone into the convenience store business for themselves?

I'm glad you asked that. The answer is easy. They had to. Most of them tried not to go into the business, and some are still resisting, but companies must take on competitive challenges.

Gasoline sales in convenience stores started in June 1964. It was immediately apparent that a convenience store could increase its margin dollars per store per day by 50% by adding self-service gasoline. This could be accomplished for $10,000 without increasing any day-to-day operating costs. The addition of gasoline to convenience stores made this a powerful concept.

Convenience stores were the way to sell gasoline. The trade-off was right. Expenses didn't increase, only margin. There were also some increased food sales because of the increase in store traffic. Convenience stores could bring gasoline to customers at a fraction of the cost of the traditional gasoline marketing vehicle, the conventional service station.

Why didn't this become the dominant way that gasoline was sold?

Because initially there wasn't enough loss of gallons for the oil companies to have to meet the challenge, and nobody else believed it. The few people that did believe didn't have the money or the ability to capitalize on the opportunity. We let it fritter right past us. It took 12 years for convenience stores to obtain 1% of the national gasoline business.

And, then what happened?

In 1976, 1% of the motor vehicle gasoline in the United States was sold through convenience stores. The threshold had been passed. Oil companies had to start thinking about this business and start to make plans to meet this new threat to their marketing operations.

While I was predicting that convenience stores were going to be a major factor in the gasoline business, gasoline companies started selling convenience store merchandise or better yet, got their jobbers to do it. That way they got the gallons, the jobbers got the problems. The oil company convenience effort is still in the early stages of development, but even the development to date is causing trouble for the old line chain convenience operators.

Well, convenience operators still sell a lot of gasoline and their share of market is increasing isn't it?

Yes, but not very rapidly. The 8 chains in this survey sell just under 4% of the gasoline sold in the United States. The 64,000 convenience stores in the United States sell about 15% of all the gasoline sold in the country.

Times have changed, however. Convenience stores are no longer a threat to the gasoline marketing system, the gasoline marketing system is a threat to the convenience store. The market for convenience is finite. As the availability of convenience increases, the volume of business in an individual location decreases.

What does that mean?

It means the trade off between cost and margin becomes wrong for a lot of locations. Every gasoline station that sells a little bit of convenience takes away from convenience store food product sales. With less sales, you develop less margin and pretty soon costs aren't being covered. When that happens, you must begin to close locations and relocate them on "prime sites."

To date the convenience store companies have closed thousands of locations and relocated them to what they call "prime sites." They don't seem to realize their new prime sites are still inferior to those already owned by the oil companies. They lost the battle a long time ago.

Didn't something like this happen to gasoline stations 10 years ago?

Yes, 200,000 or so gasoline stations have been closed over the past several years. They failed the cost/margin trade off. Convenience store gasoline sales helped create the problem. It was fun when it was happening to gasoline stations. Convenience stores took away a little gasoline business and that made many gasoline stations uneconomic. Now gasoline stations are taking away a little convenience food store business and that makes the convenience food store uneconomic.

Do gasoline stations with small kiosks make sense for major oil companies?

Yes and No. No, in a perfect world where little guys with two pumps can't pick on expensive major stations. No, convenience food store sales are not ever going to create a great percent of the margin in a major oil company station. But, yes — it's going to keep the gasoline business where it belongs — in the good, well located major company stations. It's going to severely damage the traditional convenience store chains so that they won't be around in their present configuration.

Why doesn't the convenience store company just do what the oil companies are doing?

1. They don't have crude oil to turn into dollars.
2. They don't have the world's best convenience locations.
3. Even the biggest convenience store companies are financial pygmies compared to the oil companies.
4. They have mind sets and won't be able to adjust to a changed environment. Few of them will be able to rationalize their store populations fast enough to survive.

Conventional convenience store chains seem to lose on every count to all of the players in the game of retailing:

1. As grocery distribution becomes more efficient, convenience stores pricing becomes even more uncompetitive.
2. They have lost their "time" advantage to yesterday's mass market grocery retailers. Grocery chains such as Safeway no longer compete as efficient suppliers of food products. As they attempt to gain marginal sales from 24-hour operations, traditional convenience stores lose sales.
3. The fast food quality at convenience stores is still far below that of almost all of the fast food restaurant chains. Acceptable quality fast food is available at more and more locations.
4. The public's perception of convenience store gasoline is below their perception of the quality gasoline sold at major oil company stations. Convenience stores must give away their unbranded buying advantage to sustain adequate gasoline sales volumes.
5. The single proprietorship store can operate as well as the chain and at far less cost than the chain. Convenience store chains have lost the cost battle with the small operator.

So you think the oil companies will be the surviving convenience store chains?

They have a lot of advantages. They are going to vanquish most of the current convenience store chains. The major oil companies are increasing the market share of gasoline sold in their stations.

They are building new, good looking, high gallonage units that provide about all of the convenience food that needs to be sold in the areas of their stations.

They are reducing their problems by reducing the number of stations they are operating. They are trying to build a marketing network of which they can be proud.

This doesn't sound like you. Are you telling me the oil companies are building an efficient gasoline and food marketing system?

No, I'm not telling you that. The stations and the system they are building is still not going to be economic. Oil companies will still have to subsidize gasoline marketing. There are still about double the number of stations needed in the market place. Every station reduces the margin dollars of another station and increases the oil company's total costs.

Oil companies are spending a million dollars or more per unit to develop stations that can't produce enough margin dollars to cover the costs of operation.

Marketing operations ought to pay their way. As long as the gasoline marketing system is not economic, it is vulnerable to attack.

What does that mean?

It means there is still an opportunity to efficiently distribute gasoline. We've passed through times when oil companies refined and sold gasoline and didn't have to worry too much about the marketing costs. The upstream end of the business could afford to subsidize marketing.

We are now approaching the end of a time when many thought the convenience store would be the major gasoline marketer. This isn't going to happen.

The gasoline business is a major business, and a major marketing opportunity. The present stations being constructed by the oil companies will probably fail to meet the economic goals of today's planners. The door is still open for the development of an efficient and economic answer to the gasoline marketing problem.

So you've completed another Dollars Per Day Survey. This makes 17 surveys doesn't it?

Yes, I go to Sun Valley, Idaho in October for a week every year and compile the report. This year, the week coincided with the big decline in the stock market. The report was completed during the period when the Dow Jones averages were down about 600 points.

HISTORICAL SUMMARY: CASEY'S GENERAL STORES, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended April 30, 1987

Inventory Accounting: LIFO

	11TH SURVEY	12TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
	YEAR ENDED						
	4/30/81*	4/30/82*	4/30/83	4/30/84	4/30/85	4/30/86	4/30/87
CASEY'S GENERAL STORES, INC. **DesMoines, Iowa**							
Number of Stores	304	339	377	427	482	547	586
Store Growth in Year	29	35	38	50	55	65	39
Store Days	105,653	117,330	130,651	146,400	165,865	185,384	204,432
Sales per Day—Company Stores	$707	$736	$789	$806	$814	$851	$926
Sales Growth $DPD—Company Stores		$29	$53	$17	$8	$37	$75
Gross Profit Percentage on Store Sales					28.5%	29.2%	32.6%
Gross Profit Dollars Per Store Per Day					$232	$248	$302
Gross Profit Dollars Per Day Per Store From Gasoline					$113	$119	$121
Total Gross Profit Per Store Per Day					$345	$367	$423
% Increase in Gross Profit Per Store Per Day						6.4%	15.3%
Operating Cost Per Store Per Day					$300	$309	$340
% Increase in Operating Cost Per Day						3.0%	10.0%
Pretax Profit—All Stores $DPD	$4.14	$14.29	$22.67	$30.56	$44.75	$58.39	$83.17
After Tax Profit—All stores $DPD	$2.11	$9.98	$13.49	$16.03	$24.98	$33.70	$42.11
Store Closures		1	1	0	0	0	5
Gasoline Units			377	427	482	547	586
$DPD Ranking			6/12	8/11	5/9	3/8	1/8

*Data taken from the Preliminary Prospectus Dated 8-31-83

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 597 stores in 8 states on April 30, 1987. 370 stores were company operated and 216 were franchised. The stores are operated under the Casey's General Store name.

1. The annual report states that sales from company operated units were $115,266,017. No information is given for sales from the franchise units. Average daily sales as computed here and shown above are for the 370 company operated units only.
2. Store Days:
   Company Units:
      Store days of stores open all year: 312 × 365 = 113,880
      Store days of new stores figured for 1/2 year only: 58 × 183 = 10.614
      Total Store Days: 124,494
   Franchise Units:
      Store days of stores open all year: 216 × 365 = 78,840
      Stores converted to company operated for 1/2 year only: 6 × 183 = 1,089
   Total Store Days—all stores: 204,432
3. Sales per Store per Day:
   Store sales of $115,266,017 divided by 124,494 store days equals average sales of $926 per store per day for the year.
4. Pretax Profit:
   Pretax profit of $17,003,000 divided by total store days of 204,432 results in a pretax profit of $83.17 per store per day.
5. After Tax Profit:
   After tax profit of $8,609,000 divided by total store days of 204,432 results in an after tax profit of $42.11 per store per day.
6. Casey's became a public company in October 1983.
7. All Casey's stores sell gasoline. Above listed sales do not include gasoline sales.
8. The Company shows individual store information for stores open at least one full year:

	1984		1985		DPD	1986		DPD	1987		DPD
	Annual	Per Day	Annual	Per Day	Growth	Annual	Per Day	Growth	Annual	Per Day	Growth
Average Sales of Grocery & General	$304,029	$831	$310,735	$851	$20	$322,727	$884	$33	$346,745	$950	$66
Average Gross Profits on Gasoline	36,917	101	41,997	115	14	44,252	121	33	45,738	125	4

TO OUR SHAREHOLDERS

An improved economic climate in much of the midwest, particularly in the agricultural sector, contributed to an excellent environment for Casey's General Stores, Inc. in the 1987 fiscal year. Continued emphasis on adding new stores and expansion of prepared food items as a percentage of revenues resulted in a fifth consecutive year of record earnings for our Company since we first went public in 1983.

Earnings for the 12-month period were up more than 37 percent, totaling $8.6 million, or 73 cents per share on sales of $283.9 million. Company sales grew modestly, primarily because the average retail selling price of a gallon of gasoline was 24.3 percent less in fiscal 1987 than in the year earlier period.

Expansion into freshly prepared foods, which typically carry gross profit margins in excess of 50 percent, was especially evident in the 1987 fiscal year. The percentage of revenue from prepared food items, historically in the 5 percent range, increased to 14 percent in 1987, or three times the amount of business we did in this category as recently as 1985.

Our most successful new product introduction in Company history is made-from-scratch pizza. Initially introduced in 1985, as of April 30 we offered pizza in 424 stores, or 72 percent of our retail outlets. We expect to continue expanding pizza to existing stores and to offer it in most new stores. We are experimenting with such refinements as home delivery and pizza by the slice, both of which have met with excellent response.

In 1987 we introduced a new breakfast product, cinnamon rolls, to compliment our homemade donuts. These high-quality cinnamon rolls are prepared in the same ovens and space used for pizza, which contributes to the efficiency of this operation. We also are preparing a line of made-from-scratch hot sandwiches, even offering a half sandwich at an attractive price to attract lunch-time shoppers.

Our newest non-food product is video tape rentals. Test marketing began May 1st in 30 stores. The response has been excellent and video tapes are expected to be in most of our stores by the peak winter rental season. Each store carries 180 video titles, with a 210-tape inventory. The tapes are bar-coded and customers have specially encoded cards that help speed up the rental process, for quick service at the checkout counter.

We've been adding between 50 and 55 new stores annually for the past several years, and this trend was evident in fiscal 1987 as we added 52 stores, giving us a total of 586 retail outlets as of April 30, 1987, including 216 franchise stores and 370 corporate owned stores. During the year, 10 stores were transferred from franchise to Company ownership. Capital spending in 1987 was up about 9 percent to $22.3 million, with the lion's share of the spending going to new store construction and to converting stores to pizza operation. Capital spending is projected to increase over the next two years as new store construction is accelerated to add 130 new stores during this time period. Financing of this capital spending will come from internally generated revenues and the proceeds of a $35 million convertible subordinated debentures offering that was completed in February, 1987.

In looking to the current 1988 fiscal year, which will mark our 20th anniversary, I am optimistic that we will continue to grow and create new opportunities for employees and shareholders. I look for more improvement in the general economy, along with stable inflation rates. Our effective tax rate is expected to drop to 41 percent in 1988, compared to 49 percent in fiscal 1987.

In my view, we offer the best product mix in the convenience store industry. This includes self-service gasoline at all Casey's retail outlets, groceries at competitive prices, an expanding line of high-profit freshly prepared foods, led by pizza, and our newest product, video tape rentals.

As a Company, we're committed to adding new products and services that help us better serve customers and add growth to our Company. While we change in many ways, we continue to adhere to the practices and philosophies that have made us successful in the past – and will help ensure continued future success.

Donald F Lamberti

Donald F. Lamberti
President

JULY 29, 1987

HISTORICAL SUMMARY: CIRCLE K

Data Taken from the Annual Report
and 10 K for the Year Ended April 30, 1987

Inventory Accounting: FIFO

	1ST SURVEY	5TH SURVEY	10TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
	YEAR ENDED							
	4/30/71	4/30/75	4/30/80	4/30/83	4/30/84	4/30/85	4/30/86	4/30/87
CIRCLE K **El Paso, Texas**								
Number of Stores	536	1,024	1,200	1,221	2,185	2,669	3,372	3,507
Store Growth in Year	113	77	42	10	964	484	703	135
Store Days	175,074	359,746	431,514	443,835	567,618	896,488	1,120,429	1,255,485
Sales Per Day	$535	$634	$883	$1,038	$1,139	$1,216	$1,221	$1,241
Sales Growth $DPD	$28	$42	$84	$35	$101	$77	$5	$20
Gross Profit Percentage					23.9%	25.5%	26.5%	27.9%
Total Gross Profit Dollars					$245,705,000	$429,480,000	$559,729,000	$639,948,000
Gross Profit Dollars Per Store Per Day					$433	$479	$500	$510
% Increase in Gross Profit Per Store Per Day					—	10.7%	4.3%	2.0%
Operating Cost Per Store Per Day					$362	$413	$437	$435
% Increase in Operating Cost					—	14.2%	5.7%	-.5%
Pretax Profit $DPD	$33.39	$25.15	$73.47	$54.43	$71.18	$65.91	$63.04	$75.18
After Tax Profit $DPD	$16.54	$13.11	$39.28	$29.94	$38.16	$37.27	$35.49	$39.37
Store Closures	3	12	22	10	31	33	95	149
Gasoline Units		516	726	798	1,463	1,719	2,293	2,433
$DPD Ranking	1/10	7/13	1/13	4/12	3/11	2/9	2/8	2/8

BASIS FOR PROFIT PER DAY DETERMINATION

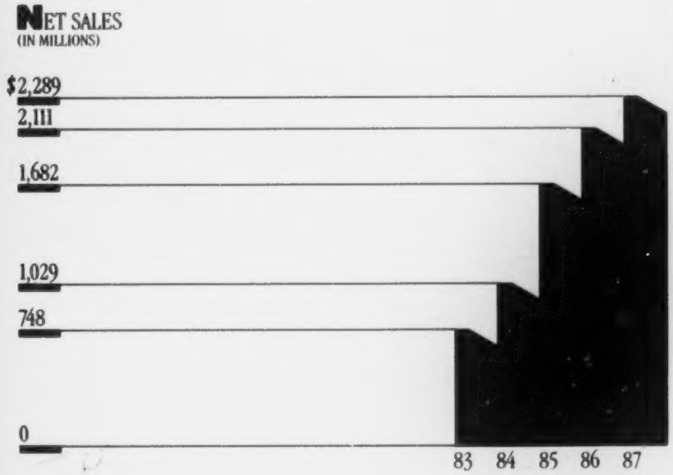
Operated 3,507 Circle K stores on April 30, 1987, in 25 Western, Southern, and Southeastern states.

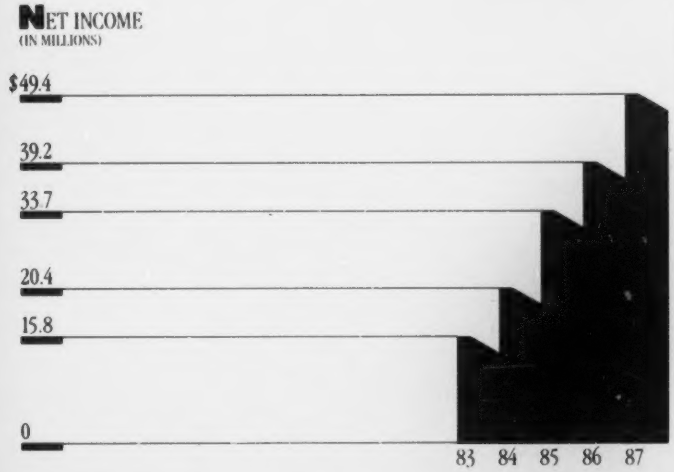
1. The annual report states that merchandise sales were $1,558,200,000. Gasoline sales were $731,200,000.
2. Store Days:
   Store days of stores open all year: 3,372 × 365 = 1,230,780
   Store days for new stores figured for 1/2 year only: 135 × 183 = 24,705
   Total Store Days: 1,255,485
3. Sales per Store per Day:
   Sales of $1,558,200,000 divided by 1,255,485 store days equals average sales of $1,241 per store per year. Store sales do not include gasoline sales.
4. Pretax Profit:
   Pretax profit of $94,296,000 divided by 1,255,485 store days results in a pretax profit of $39.37 per store per day.
5. After Tax Profit:
   After tax profit of $49,430,000 divided by 1,255,485 store days results in an after tax profit of $75.18 per store per day.
6. 67 stores are operated by contract operators and the sales are included. This number decreased by 11 stores from the previous year and 83 stores over the past four years.
7. Profit figures include the results of international operations, an ice company, and various subsidiary food operations.
8. Changed inventory accounting from Lifo to Fifo during the year. Change increased pretax earnings by $3,998,000 or $3.18 per store per day.

FINANCIAL HIGHLIGHTS

The Circle K Corporation For the fiscal years ended April 30	1987	1986
Sales*	$2,289,444,000	$2,111,267,000
Earnings before income taxes	94,296,000	69,603,000
Income taxes	44,866,000	30,381,000
Net Earnings	49,430,000	39,222,000
Earnings per share (fully diluted)	$0.85	$0.74
Dividends per share	$0.28	$0.25
Current Assets	358,869,000	277,123,000
Current Liabilities	169,449,000	187,875,000
Net working capital	189,420,000	89,248,000
Stockholders' equity	310,013,000	200,102,000
Number of stores in operation*	3,507	3,372

**Includes contract operated stores*


NET SALES
(IN MILLIONS)


NET INCOME
(IN MILLIONS)

TO OUR SHAREHOLDERS

Fiscal 1987 was probably the most competitive twelve-month period your company has experienced in the last five years. We achieved additional growth in revenues despite a dismal economy in the Central Texas and Louisiana Gulf Coast areas, an unexpected upheaval in the gasoline business early in the year and increased competition from established convenience store operators and from gasoline marketing companies as they expanded their operations in the convenience store industry.

Circle K ended fiscal 1987 with full year net income of $49,430,000 or $.85 per share fully diluted on sales of $2,289,444,000. In the previous year we reported net income of $39,222,000 or $.74 fully diluted on sales of $2,111,267,000.

Our net income for the fourth fiscal quarter ended April 30, 1987 amounted to $10,721,000 on sales of $597,466,000 compared to net income of $8,870,000 on sales of $523,993,000 in the same quarter last year.

In a year dominated by competitive pressures and the loss of investment tax credits caused by the new tax code, it was easy to overlook some very positive accomplishments within the Company.

For example, our pretax profits increased from $69.6-million to $94.3-million. Another notable major improvement was in our overall gross margin which moved up from 26.5% to 27.9%.

The Company will benefit long-term from the new tax code but there was a major short-term negative which adversely affected fiscal 1987 operating results. Elimination of investment tax credits increased our effective tax rate for fiscal 1987 to 48% compared to 44% last year adversely affecting net income. Beginning this year, our effective tax rate should be about 41% and in fiscal 1989 our rate should be about 39%.

(Continued next page)

CIRCLE K

EXCERPT FROM THE ANNUAL REPORT OF THE CIRCLE K CORPORATION, 4.30.87

The price of crude oil dropped drastically in January 1986 causing temporary disruptions in the gasoline sector in the last quarter of fiscal 1986. Those disruptions continued to reverberate throughout the industry during the first quarter of Circle K's fiscal 1987. During fiscal 1987 gasoline revenue was reduced by falling retail prices. Fortunately, we were able to retain good per-gallon gross margins as prices drifted downward. Prices began to stabilize in June, 1986 and margins returned to slightly above pre-1986 average levels.

Our pace of international expansion accelerated during fiscal 1987 when we signed agreements moving Circle K into Canada and substantially increasing our presence in the United Kingdom.

On September 15, we effected a two-for-one common stock split, increasing the number of outstanding shares by approximately 21.5-million.

In October we called for redemption of our $75-million 8¼% Convertible Subordinated Debentures due 2004. Bondholders converted $74,946,000 principal amount into approximately 6.2-million additional shares of common stock reducing debt and increasing stockholder equity.

On November 6 we issued $150-million principal amount of 7¼% Convertible Subordinated Debentures due 2006 and in April 1987, we completed a $100-million sale and leaseback of 250 stores. Proceeds were used to retire certain debt with the balance going to working capital.

On November 21 your Board of Directors promoted Robert Reade to the position of President and Chief Operating Officer of The Circle K Corporation replacing Robert Hutchinson. Mr. Reade was formerly Senior Vice President of Real Estate for the Company. Mr. Hutchinson, who had served your Company as President and Chief Operating Officer since 1980, had informed the Board of Directors of his desire to reduce his level of activity and involvement with the Company in anticipation of early retirement. Mr. Hutchinson has continued in a consulting capacity to the Company, specifically in the areas of marketing, advertising and store operations.

At the same time, your Board appointed Peter Cohen, formerly Executive Assistant to the President, as Executive Vice President of Store Operations. Bob Reade and Peter Cohen are extremely talented young men with proven records of success in administration and operations. It is they, along with the other members of the Circle K senior management team, who will craft the future of your company as we pursue our goals of increasing efficiency and profitability and better equipping Circle K to function more effectively in an increasingly competitive environment.

That competitive environment continues to present challenges as well as opportunities. Your management will strive not only to meet and overcome those challenges but to capitalize on the opportunities as they arise. Protection of profitability through maintenance of reasonable merchandise margins shall remain a management priority. In the coming year we will endeavor to enlarge our customer base by better understanding and anticipating their wants and needs. We'll serve those customers better by continuing to build modern, attractive stores at the best and most convenient sites available. We'll improve an already good product mix through research and experimentation.

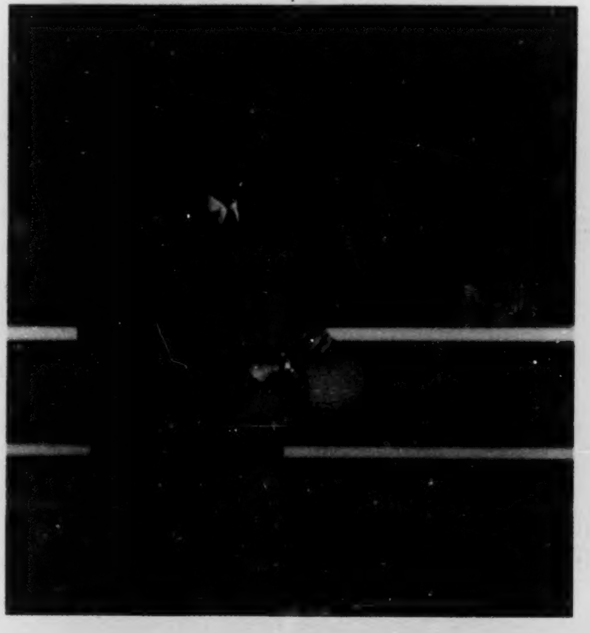
While fiscal 1987 was not dramatic in terms of acquisition and expansion, it was perhaps the most productive period in the Company's life cycle for quietly developing and improving internal management, reorganizing and strengthening field management, improving our problem-solving process and building a solid foundation for the future.

We enter the new year with a growing market share, streamlined systems, successfully integrated acquisitions and an improved management team which is dedicated to capitalizing on the solid foundation which we've carefully built over the past twelve months. Ours is a "hands on" business and attention to details—the little things—turns opportunity into profitability. While we welcome the challenges of 1988, we even more eagerly anticipate, and are ready for, the opportunities we know it will bring.

Sincerely,

Karl Eller

Karl Eller,
Chairman



HISTORICAL SUMMARY: SOUTHLAND CORPORATION

Data Taken from the Annual Report
and 10 K for the Year Ended December 31, 1986

Inventory Accounting: LIFO

	1ST SURVEY	5TH SURVEY	10TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
					YEAR ENDED			
	12/31/70	12/31/74	12/31/79	12/31/82	12/31/83	12/31/84	12/31/85	12/31/86
SOUTHLAND CORPORATION **Dallas, Texas**								
Number of Stores	3,734	5,171	6,805	7,165	7,299	7,473	7,519	7,672
Store Growth in Year	197	370	206	163	134	174	46	153
Store Days	1,327,056	1,820,075	2,446,127	2,585,396	2,639,613	2,703,272	2,736,017	2,772,434
Sales Per Day	$564	$708	$1,087	$1,532	$1,656	$1,773	$1,893	$2,033
Sales Growth $DPD		$55	$137	$138	$124	$117	$120	$140
Estimated Gross Profit Percentage—on store sales*						34%	34%	34%
Gross Profit Dollars Per Store Per Day						$603	$644	$691
Gross Profit Dollars Per Store Per Day from Gasoline						$38	$44	$61
Total Gross Profit Per Store Per Day						$641	$688	$752
% Increase in Gross Profit Per Store Per Day						—	7.3%	9.3%
Operating Cost Per Store Per Day						$590	$624	$693
% Increase in Operating Cost							5.8%	11.0%
Pretax Profit $DPD	$17.15	$25.45	$38.42	$59.34	$55.58	$50.80	$63.99	$59.19
After Tax Profit $DPD	$8.50	$12.64	$28.13	$33.97	$39.46	$47.24	$48.17	$48.24
Store Closures	139	142	460	271	364	224	339	286
Gasoline Units	75	502	2,107	2,827	3,007	3,173	3,213	3,594
$DPD Ranking	3/10	6/13	7/13	3/12	5/11	4/9	1/8	3/8
Percentage of stores that sell gasoline	2.0%	9.7%	30.9%	39.5%	41.2%	42.5%	42.8%	46.8%

*Note Page 51 of Southland purchase offer circular

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 7,672 7-Eleven stores on December 31, 1986 in 49 states, the District of Columbia, and Canada, of which 4,734 were company-operated stores and 2,938 or 38% of the units are franchised.

1. The annual report states that Convenience Store Merchandise sales were $5,668,100,000 in 1986. These sales included merchandise sales from 163 Quik Mart Stores. We have assumed Quik Mart sales to average $500 per store per day and have eliminated $29,747,500 to arrive at 7-Eleven store sales of $5,638,352,000.
2. Store Days:
   Store days of stores open year-round: 7,519 × 365 = 2,744, 435
   Store days for new stores figured for 1/2 year only: 153 × 183 = 27,999
   Total Store Days: 2,772,434
3. Sales per Store per Day:
   Sales of $5,638,352,000 divided by 2,772,434 store days equals average sales of $2,033 per store per day for the year.
4. Pretax Profit Computation:
   The annual reports states that pretax profits from Convenience Retailing and Food Processing and Manufacturing were $183,206,000. The report also states that operating profits from food processing and manufacturing was $38,200,000. We have arbitrarily eliminated 50% of this operating profit and assumed that food procession and manufacturing pretax profits were $19,100,000. The convenience segments pretax profit is thus $164,106,000. We realize this probably overstates 7-Eleven profits since the convenience store segments results include profits from 465 Chief Auto Parts Stores, 163 Quik Marts, the regional distribution centers, and royalties from franchising and licensing. (The Japanese royalty was $5.78 per store per day for each 7-Eleven store in the United States.)
      Pretax profit from Convenience Retailing and Food Processing and Manufacturing: $183,206,000
      Less estimated pretax profit from Food Processing and Manufacturing: 19,100,000
      Pretax profit from the convenience retailing segment divided by 7-Eleven store days of 2,772,434 = pretax profit per store per day from 7-Eleven of $59.19: $164,106,000
5. After Tax Profits:
   After tax profit for Southland is 81.5% of pretax profit. 81.5% of $164,106,000 is $133,746,390. Divided by store days of 2,772,434 we arrive at after tax profit of $48.24 per store per day.

SOUTHLAND CORPORATION

EXCERPT FROM THE ANNUAL REPORT OF THE SOUTHLAND CORPORATION, 12.31.86

LETTER TO SHAREHOLDERS

Our 7-Eleven stores are competing very aggressively. Marketing and operating strategies expanded or initiated in 1986 have placed us in an even better position to continue our strong, profitable growth.

The past year was very active and important for Southland.

On September 30, 1986, the Company sold 50 percent of the common stock of its Citgo Petroleum Corporation subsidiary to a subsidiary of Petroleos de Venezuela, S.A. (PDVSA), Venezuela's state-owned oil company. Results for both 1986 and 1985 have been restated to reflect the equity method of accounting, thereby excluding Citgo's sales from Southland's revenues for both years. Net earnings for 1986 included 100 percent of Citgo's loss through the first nine months, but in the fourth quarter only Southland's 50-percent interest in Citgo's earnings was included. In 1985, however, Southland's net earnings included 100 percent of Citgo's profits for all of that year.

Revenues of $8.62 billion for 1986 were equal to the record level of 1985 despite a 24-percent decline in the average retail price of gasoline, Southland's largest single product category. Net earnings of $200.4 million were 5.7 percent less than in 1985. After the first full year's dilutive effect of 2.5 million shares of preferred stock, earnings per share of $3.96 primary and $3.91 fully diluted were down 10.2 percent and 10.5 percent, respectively.

The capital gain recognized in 1986 on the sale of half of Citgo's equity was $114.7 million before profit sharing and taxes, resulting in an $88.6-million addition to net earnings, or $1.84 per primary share. The transaction, including the sale proceeds, added more than $400 million to Southland's cash flow as various intercompany accounts were cleared. Citgo also recorded a net pretax charge of $112 million for a write-down of its inventories to market value, which negatively affected Southland's 1986 earnings.

7-Eleven, our primary business, moved very aggressively during the year to meet the challenges of an increasingly competitive retailing environment. The growth opportunities for convenience retailing have attracted many new competitors over the last few years — most notably oil company gasoline/mini-convenience "g-stores," which sell a limited assortment of merchandise such as canned soft drinks, cigarettes and snack foods at prices designed to attract more gasoline customers.

Although 7-Eleven has been expanding its selection of merchandise and services for several years to appeal to new customer groups, in 1986 it dramatically accelerated investment in marketing programs, as well as store remodeling. Costs associated with these projects contributed to reduced 7-Eleven profitability in the second half of 1986 and will continue to affect the stores through at least the first half of 1987. In addition, in certain markets 7-Eleven established more competitive pricing guidelines, which reduced merchandise margins but has begun to produce higher sales and total gross profit dollars.

Merchandise sales at 7,835 7-Eleven and other Southland convenience stores increased 7.7 percent and were up 6.2 percent in stores open more than 12 months. This produced real sales growth after inflation of 3.7 percent.

Three key 7-Eleven marketing programs — fast foods, customer services and self-serve gasoline — were enhanced or expanded in 1986. Some combination of hot dogs, nachos and fresh-made deli-style sandwiches is now available at 6,500 stores, and a new hot sandwich program was introduced under the name "Get Hot" in 2,000 stores on the West Coast late in the year. Together with microwave-ready sandwiches and burritos, these items give 7-Eleven customers good value and the widest selection of high-quality quick-meal items to be found at any other convenience store or fast food outlet.

"MovieQuik," Southland's videocassette rental program, offers exciting traffic-building potential since 40 percent of all American households already own videocassette recorders, and each rental involves two trips to the store. 7-Eleven can compete effectively in this fast-growing and fragmented business by filling a very specific market niche. No other video retailer will be able to match the number of easily accessible "MovieQuik" locations open around the clock, with selections of 200 regularly rotated tapes in each store, including the most frequently requested movie titles. We are pleased that "MovieQuik" is now up and running, and the program will be expanded to most 7-Eleven stores this year.

In 1986 the Citgo gasoline brand name was proudly displayed for the first time at 2,700 7-Eleven stores east of the Rocky Mountains. Availability of the Citgo brand, together with aggressive promotion of the new "Citgo Plus" credit card, helped push total retail gasoline volume over the two-billion-gallon mark and further strengthened Southland's position as the nation's largest independent gasoline retailer. Total retail gallonage increased 4.3 percent to 2.05 billion gallons, including 10.6 percent growth at 7-Eleven. This is a healthy increase in market share since national gasoline consumption grew only about 2.6 percent. Average gross profit per gallon increased 24.6 percent, largely because of first quarter gasoline margins, the highest in the industry's history.

New store construction and acquisition accelerated, and expenditures for store remodeling doubled in 1986. Southland opened 439 7-Eleven stores for a net increase of 153 stores after closing 286 units due to relocations, changing market patterns, lease expirations and divestitures in secondary markets. At year-end, the Company acquired 346 High's Dairy Stores located primarily in Virginia and Maryland. Although these stores will continue to operate under the "High's" name, they represent a very attractive addition to Southland's store base. We also were pleased to complete the sale of the Gristede's operation, including 43 retail units, which did not offer growth opportunities compatible with our goals.

John P. Thompson Jere W. Thompson

SOUTHLAND CORPORATION

EXCERPT FROM THE ANNUAL REPORT OF THE SOUTHLAND CORPORATION, 12.31.86

Southland's sale of half of Citgo to PDVSA was one of those gratifying occasions when all parties emerged as winners. The sale made Citgo a much stronger refiner/marketer, partly because of the 20-year agreement for PDVSA to supply it with a minimum of 130,000 barrels per day of competitively priced crude oil and other feedstocks. This long-term supply of feedstocks enables Citgo to achieve more stable, cost-efficient operations and a more reliable product supply for its customers.

Southland will be assured of a long-term, competitively priced supply of branded gasoline for its 7-Eleven stores while retaining a one-half equity interest in Citgo. The Company will benefit not only from Citgo's reduced exposure to the margin volatility that is typical of its industry, but also from Citgo's improved competitive strength. In addition, the sale allowed Southland to recover much of its initial investment in Citgo, which can be redeployed into convenience retailing, our core business. PDVSA achieved several objectives, including access to 7-Eleven's extensive retail gasoline market through Citgo and a long-term customer whose refinery is particularly well-suited to process Venezuela's heavy sour crude oil.

Citgo's 1986 operating results were really quite good once the extremely difficult first quarter was over. Marketing efforts were intensified to increase the value of the brand for Southland and Citgo's other wholesale customers. At year-end, approximately 7,000 retail outlets were displaying the Citgo brand, including 2,700 7-Eleven stores and more than 1,000 new branded distributor outlets. Over one million "Citgo Plus" credit card accounts were added during the year, almost quadrupling Citgo's credit customer base.

Southland's International Division granted four additional 7-Eleven area licenses in 1986, the most in any single year in its history, and also reported substantially higher profits. The new licensees will operate in Panama, Norway, Guam/Micronesia and the Republic of Ireland. At year-end, 4,102 7-Eleven stores and other convenience stores were operated by licensees or affiliates in the United States and 11 other countries. We congratulate the 7-Eleven licensees in Taiwan and Australia, each of which opened its 100th store during 1986, and extend special recognition to Seven-Eleven Japan Co., Ltd., which will open its 3,000th store in early 1987, a most impressive milestone.

Our five distribution centers substantially increased their profitability and outside sales during the year. The distribution system operates coast-to-coast, serving 73 percent of Southland's 7-Eleven stores as well as many national food service and other outside accounts. Southland has the most extensive distribution system of any convenience retailer, which has been a key factor in 7-Eleven's ability to respond quickly to the rapidly changing needs and desires of its customers.

Chief Auto Parts enjoyed its most profitable year in 1986 due to increased sales and the continuation of a stringent cost control program. This industry offers strong potential growth, especially with the successful application of Southland's convenience retailing concepts.

The Dairies Group continued its four-year record of very solid sales and profit growth by aggressively seeking new business opportunities and carefully controlling production and distribution expenses, a strategy that has enabled it to consistently outperform its industry. While providing important support for 7-Eleven, the Group also continues to expand its highly profitable outside business. We're very pleased that the Dairies Group's achievements resulted in its being named 1986 Dairy Processor of the Year by Dairy Foods magazine.

Southland's 1986 capital expenditures totaled $786.9 million, including $561.7 million for convenience retailing. The majority of that amount was invested in 7-Eleven for new stores, remodeling and support of our marketing programs. We remain very confident of the many growth opportunities available in our core business and will continue to pursue those that best complement our strategic direction.

SOUTHLAND CORPORATION

EXCERPT FROM THE ANNUAL REPORT OF THE SOUTHLAND CORPORATION, 12.31.86

In early 1987, Cityplace Center East Corporation, a subsidiary of Southland, issued $290 million of public debt to fund a portion of the Company's new 42-story Dallas headquarters and allocated infrastructure costs associated with the entire Cityplace project. The debt is nonrecourse to Southland and backed by a bank letter of credit. The headquarters will allow the Company to consolidate approximately 1,700 employees now located in 16 buildings. The planned companion tower will not be built until significant tenant preleasing is obtained, and the balance of the Cityplace acreage will be developed over the next 20 years as market conditions warrant.

Southland and 7-Eleven have always practiced good corporate citizenship, not just because we feel it is the right thing to do, but also because it makes good business sense to support the needs of the communities in which we operate. Our employees, franchisees, customers and suppliers raised $4.7 million for the Muscular Dystrophy Association this year, bringing our total since 1976 to almost $50 million, more than any other corporate sponsor of the Jerry Lewis Labor Day Telethon. Employees and franchisees also raised $1.8 million for the March of Dimes WalkAmerica.

Just as 7-Eleven continually modifies its merchandise mix to serve its customers better, we also periodically review the effectiveness of our management structure in supporting our business units. As the result of a particularly intensive review completed in 1986, we reorganized and aligned certain corporate staff functions with the business units that they primarily serve, eliminating duplication, trimming nonessential internal functions and increasing our overall responsiveness and efficiency. At the same time, we consolidated five regional stores operations into four. We are pursuing additional ways to make your Company an even more cost-efficient provider of high-quality products and services in order to maximize shareholder value.

In January the Board of Directors continued the current annual dividend rate of $1.12 per share on Southland's common stock. This maintains the dividend payout within the range of 25-30 percent of prior-year net earnings, the Board's longstanding guideline. The first quarterly dividend of $.28, to be paid on March 20, 1987, to shareholders of record on February 27, will begin the Company's 31st year of uninterrupted dividend payments.

1986 was indeed an active and important year for Southland. The sale of half of Citgo achieved some important objectives, including strengthening our balance sheet. Recent marketing and operating strategies have placed us in an even better position to continue our strong, profitable growth. With almost 8,000 highly visible locations and a 60-year tradition of customer service, 7-Eleven has one of the strongest retail bases in North America, ably supported by food processing, distribution and manufacturing businesses that provide the Company with profitable outside sales and an excellent return on investment.

Everyone at Southland is committed to making your Company an even tougher competitor in order to take full advantage of our many exciting opportunities. We sincerely appreciate the efforts of our employees, franchisees and suppliers, as well as the continuing support and loyalty of you, our shareholders.

John P Thompson

John P. Thompson
Chairman of the Board

Jere W Thompson

Jere W. Thompson
President and Chief Executive Officer

March 16, 1987

THE SOUTHLAND CORPORATION

In 1927, an employee of The Southland Ice Company answered the requests of his customers by selling bread, milk and eggs from the steps of his ice dock. With that simple idea — giving customers what they want, when they want it — "Uncle" Johnny Green began a 60-year tradition of customer service and innovation that remains the driving force of Southland's 8,700 7-Eleven stores and other retail units.

Southland has never been content to do things "because that's the way things have always been done." Instead, as the founder of the convenience store industry, it has led in the development of hundreds of new products and services — around-the-clock operating hours, self-serve gasoline, dairy products and sandwiches from its own subsidiaries, automatic teller machines, and of course "Slurpee," just to name a few. These innovations and millions of satisfied customers have allowed Southland to build one of the strongest and most geographically diverse store bases in the history of retailing. The Company's superior understanding of the marketplace provides a strong foundation for another 60 years of profitable growth and service to its customers.

CELEBRATING SIXTY YEARS OF SERVICE AND INNOVATION

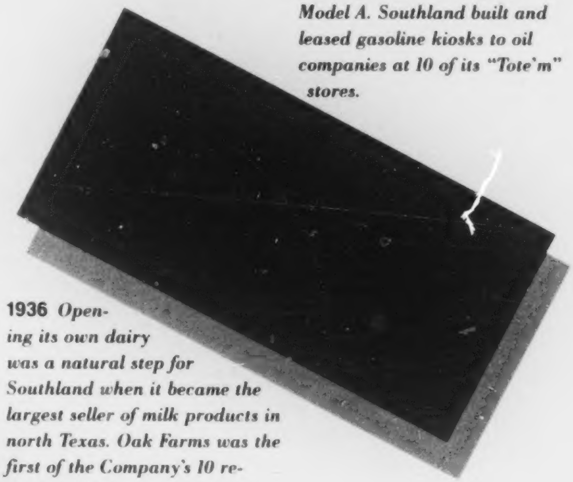
The history of 7-Eleven is remarkable, not only for its dramatic and profitable growth from the steps of a humble ice dock, but also for the creativity and even humor that it has brought to the marketplace.

New ideas and the ability to stay on the leading edge of trends have made 7-Eleven an integral part of the American lifestyle. But 7-Eleven hasn't been content just to innovate. Some of its brightest moments came when it also entertained or set out to startle its customers with bold new imagery — from the large colorful totem poles in front of the original "Tote'm" stores, the world's first retail pole signs . . . to the award-winning 1962 commercial featuring two talking watermelon seeds held captive deep inside an ice-cold 7-Eleven melon . . . to 7-Eleven's gravelly voiced radio announcer Y. Y. Wickie, who explains how he invented this "'cold stuff' called ice."

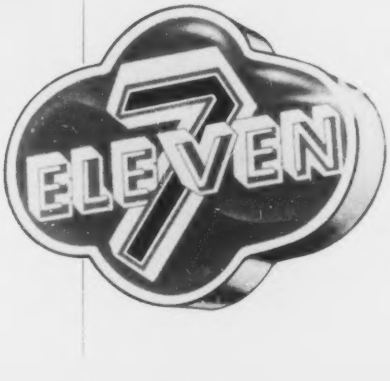
How do you keep almost eight million customers a day happy and coming back for more? You never lose sight of what makes 7-Eleven successful — providing the best service to its customers in the most efficient way possible. This emphasis on service produces a profitable, growing company, which in turn creates added value for its shareholders.

Southland remains committed not only to anticipating and meeting the needs and expectations of its customers, but also to exceeding them whenever possible — just as it has been doing for 60 years.

1928 *Gasoline was first sold at a convenience store only 25 years after the birth of the Model A. Southland built and leased gasoline kiosks to oil companies at 10 of its "Tote'm" stores.*



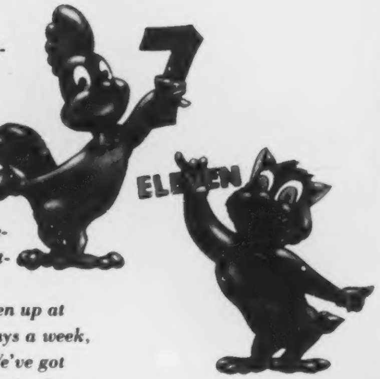
1936 *Opening its own dairy was a natural step for Southland when it became the largest seller of milk products in north Texas. Oak Farms was the first of the Company's 10 regional dairies, now one of the largest dairy operations in America, which efficiently serve 73 percent of all 7-Eleven stores and thousands of other customers.*



1946 *"7-Eleven" first appeared as the name for all retail units owned by Southland, and the modern convenience store era began. The name, emblazoned on a lucky four-leaf clover, heralded the stores' 7 a.m. to 11 p.m. operating hours, a completely new idea in customer service.*

1948 *When the forerunner of today's 7-Eleven pole sign first appeared, most sales were through curb service, a legacy from Southland's ice docks. Open store-front designs were another customer convenience.*

1949 *7-Eleven's animated "Owl and Rooster" commercial was the first television advertising by a convenience chain. Customers remembered the chant-type jingle, "Seven days a week, we open up at seven. And seven days a week, we're open 'til 11. We've got soup to nuts and that's why we sing, 7-Eleven's got everything."*



DO IT YOURSELF
Automatic Tester
TV RADIO
TUBES
SAVE

1954 *Known as "the little store that had everything," 7-Eleven quickly learned to meet and even anticipate the needs and desires of its customers. Do-it-yourself television tube testers were an instant success, as were key-making machines and later, money order sales.*

1954 *Geographic expansion began with the first 7-Eleven in Florida. A move to Virginia in '57 proved 7-Eleven worked in all climates, and a major California acquisition in '64 introduced Southland to franchising.*

7
ELEVEn
FOOD STORES
OPEN 24 HOURS

1963 *In tune with the changing lifestyles of its customers, 7-Eleven began operating stores "around the clock" — the first retail chain to do so.*

SLURPEE
7 ELEVEN
SLURP
SLURPEE
SLURPEE

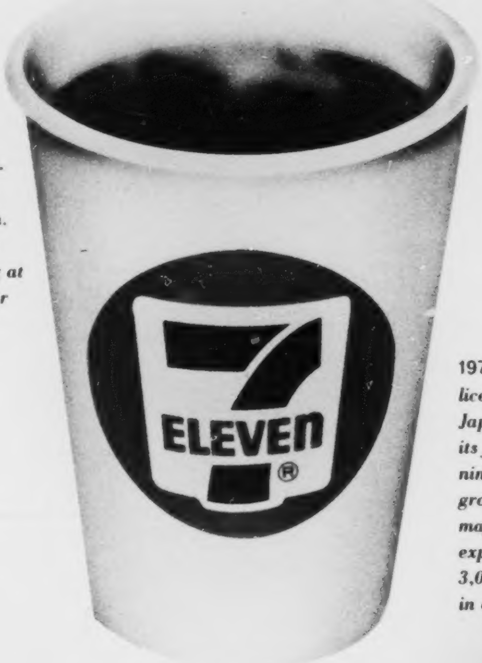
1965 *7-Eleven introduced a new drink, soon to be known as "Slurpee," mimicking the sound made when drunk through a straw. Colorful flavor names like "Fulla Bulla" and "Leprechauns' Brew" and theme promotions have kept children of all ages slurpin' for more than 20 years.*

Oh Thank Heaven for 7 ELEVEN

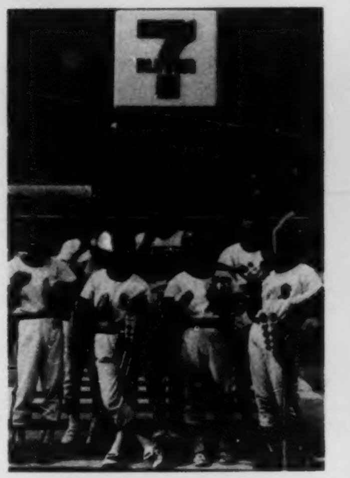
1969 *Echoing the sentiments of its customers, Southland introduced one of the best-loved and longest-lasting advertising themes in the history of retailing.*

ELEVE
Southland distribution center

1971 *The first of five regional distribution centers opened in Florida. Its new "single unit" ordering concept enabled 7-Eleven to offer a wider merchandise variety in a small selling space. Almost three-fourths of the 7-Eleven stores and many other customers now benefit from the coast-to-coast distribution system, the most extensive in the convenience retailing industry.*



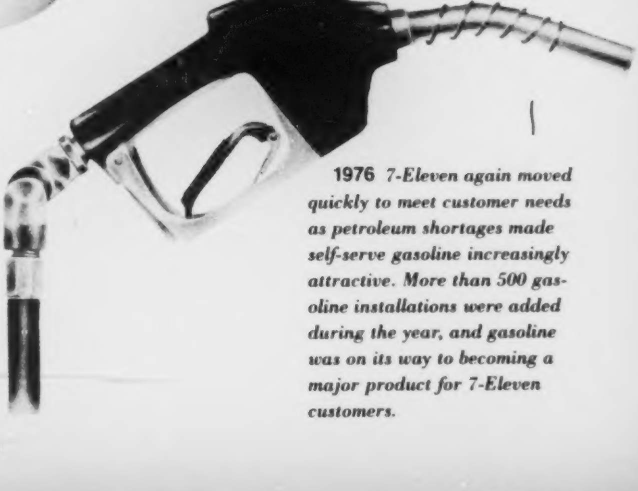
1969 *An early morning tradition began with the debut of "hot-to-go coffee" at 7-Eleven. Customers know they can always find a fresh pot brewing at 7-Eleven, which now sells over one million cups a day.*



1974 *The area licensee for Japan opened its first 7-Eleven store, beginning a phenomenal decade of growth and representing a major step in overseas expansion for Southland. The 3,000th store in Japan will open in early 1987.*

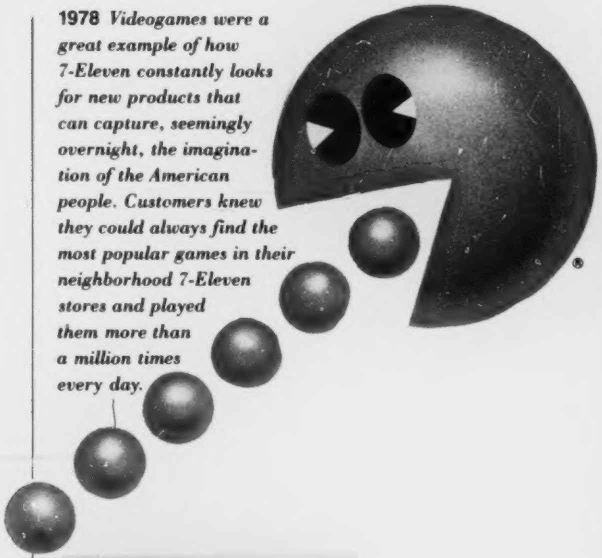
smileys® Foods

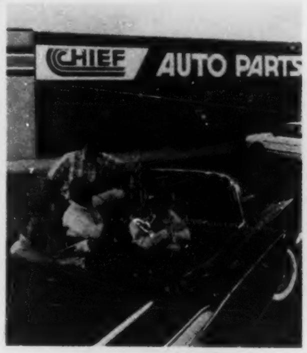
1969 *A new Smileys sandwich plant in Fort Lauderdale, Florida, began Southland's successful venture into fast foods. As early as 1959, 7-Eleven was experimenting with microwave-cooked fast food products.*



1976 *7-Eleven again moved quickly to meet customer needs as petroleum shortages made self-serve gasoline increasingly attractive. More than 500 gasoline installations were added during the year, and gasoline was on its way to becoming a major product for 7-Eleven customers.*

1978 *Videogames were a great example of how 7-Eleven constantly looks for new products that can capture, seemingly overnight, the imagination of the American people. Customers knew they could always find the most popular games in their neighborhood 7-Eleven stores and played them more than a million times every day.*



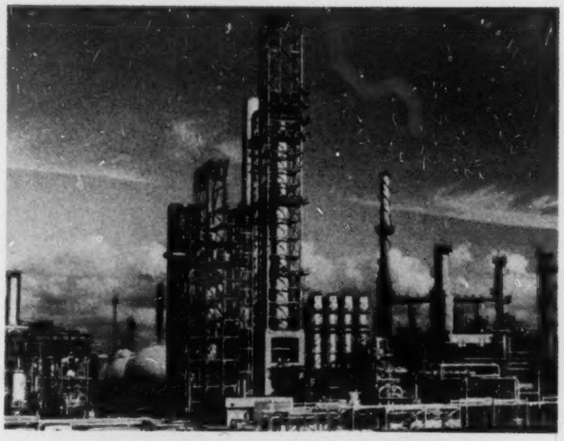


1978 *Southland applied the convenience retailing concept to a new field with the acquisition of 119 Chief Auto Parts stores in Southern California. About half of all car owners do some of their own repairs, and at Chief they find everything they need.*

Enjoy
Coke
Trademark ®
PEPSI

1982 *7-Eleven offered its customers the "freedom of choice" between Coca-Cola and Pepsi-Cola in the same soda fountain — a first in the soft drink industry. Today, 7-Eleven is one of the top sellers of fountain soft drinks, due to the customer appeal of value pricing and a choice of at least six beverages.*

1983 *Southland's acquisition of Citgo Petroleum Corporation provided 7-Eleven with an assured supply and extensive distribution system for gasoline, its largest single product category.*



1986 *The modern 7-Eleven represents many evolutions since the days milk, bread and eggs were sold from the side of an ice dock. Automatic teller machines, videocassette rentals, fast foods, self-serve soda fountains and large gasoline canopies are just a few of the features of the new 7-Eleven, still "the little store that has everything."*

CITGO
7 ELEVEn
CITGO GASOL
REGULAR

HISTORICAL SUMMARY: SUNSHINE JR. STORES, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended December

Inventory Accounting: LIFO

	1ST SURVEY	5TH SURVEY	10TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
	YEAR ENDED							
	12/31/70	12/31/74	12/31/79	12/30/82	12/29/83	12/27/84	12/26/85	12/26/86
SUNSHINE JR. STORES, INC.								
Number of Stores	98	215	336	358	345	336	340	330
Store Growth in Year	22	36	20	4	-13	-9	4	-10
Store Days	31,766	71,923	118,980	129,584	127,946	123,942	123,032	121,950
Sales per Day	$370	$507*	$502	$570	$558	$651	$648	$661
Sales Growth $DPD	$18	$70	$32	$8	-$12	$93	-$3	$13
Gross Profit Percentage						20.7%	21.4%	25.1%
Total Gross Profit Dollars						$32,941,700	$34,918,729	$38,237,019
Gross Profit Dollars Per Store Per Day						$257	$282	$314
% Increase in Gross Profit Per Store Per Day							9.4%	11.3%
Operating Cost Per Store Per Day						$237	$254	$272
% Increase in Operating Cost Per Day							7.0%	7.3%
Pretax Profit $DPD	$19.35	$30.78	$31.03	$18.14	$20.43	$28.16	$32.72	$41.57
After Tax Profit	$10.12	$16.31	$16.86	$10.92	$11.36	$16.66	$18.35	$21.73
Store Closures			8	17	17	16	7	27
Gasoline Units		51	260	322	321	319	322	317
$DPD Ranking	2/10	3/13	9/13	9/12	9/11	6/9	4/8	4/8

*Includes gasoline sales.

BASIS FOR PROFIT PER DAY DETERMINATION

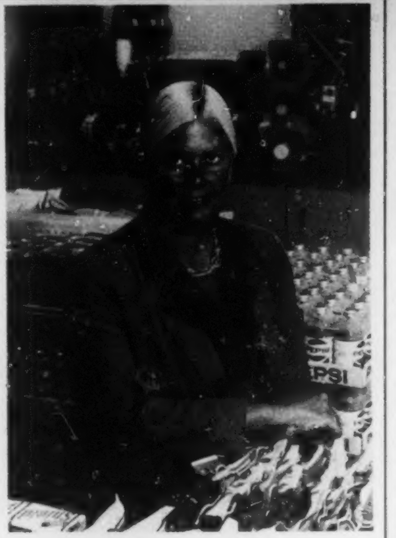
Operated 330 stores on December 25, 1986, in five states.

1. The annual report states that Jr. food store sales were $152,000,000. 47% of those sales were gasoline sales. Gasoline sales of $71,440,000 have been deducted from total Jr. food store sales to arrive at Jr. food store merchandise sales of $80,560,000.
2. Store Days:
   Store days of stores open all year: 330 × 364 = 120,120
   Store days for net closed stores figured for 1/2 year only: 10 × 183 = 1,830
   Total Store Days: 121,950
3. Sales per Store per Day:
   Sales of $80,560,000 divided by 121,950 store days equals average sales of $661 per store per day for the year.
4. Pretax Profit per Store per Day:
   The annual report states that total pretax income was $5,529,460. Convenience stores sales are 91.7% of total sales. We have allocated pretax profit on this same basis. Convenience store pretax profits were thus $5,070,514. This profit has been divided by store days to arrive at a pretax convenience store profit of $41.57 per store per day.
5. After Tax Profit Per Store Per Day:
   After tax profit was $2,889,350. We have allocated 91.7% of that to convenience stores or $2,649,533. This profit has been divided by store days to arrive at an after tax convenience store profit of $21.73 per store per day.
6. 218 stores or 66% of the stores are open 24 hours a day.
7. The Company operates four supermarkets.

SUNSHINE, JR. STORES, INCORPORATED

EXCERPT FROM THE ANNUAL REPORT OF SUNSHINE, JR. STORES, INC., 12.26.86

PRESIDENT'S REPORT:



Lana Jane Lewis-Brent
President, CEO

The convenience store industry is one that is highly competitive, is sensitive to the world economy and is constantly influenced by volatile consumer trends. Success in the industry requires judicial planning, quick action and a management team that is both energetic and experienced. For Sunshine-Jr. Stores, Inc., the year 1986 proved to be typical of the industry and the Company's management team proved itself able to anticipate and succeed in this quickly changing climate

Although sales declined in 1986, net income for the year was up 15.7% from the previous year rising $392,000 to a total of $2,889,350. Net income per share was a record $1.70, compared to $1.47 last year. Sales for the year, however, were down 9.4% from $183.1 million in 1985 to $165.8 million this year. While this decrease in sales was primarily a result of the declining retail price of gasoline, other contributing factors included the closing of 31 unprofitable convenience stores and one supermarket.

The gain in net income was a response to a general improvement in merchandise gross margins plus a significant jump in gasoline gross margins. These gains plus a concerted effort by management to hold the line on operating expenses, build merchandising programs and eliminate unprofitable segments of the company created the increase in income on declining sales.

Specifically, Jr. Food Store sales were $152 million, down 8.4% compared to $166 million in 1985. While gasoline sales showed an impressive 8.8% increase in the total number of gallons sold, gasoline sales contributed only 47% of convenience store revenue, down 4.9% from 52% of convenience store sales in 1985.

Sunshine Supermarket sales were $14 million, down 18.8% reflecting less revenue due to the closing of one supermarket during 1986, compared to a decrease of 17.4% in 1985 when we closed two supermarkets. On an adjusted basis, and excluding the sales from closed supermarkets from both years, supermarket sales were down 2.2% in 1986. The remaining four supermarkets retain a strong market share in their respective localities in the face of formidable competition from national chains.

A significant change in company operation occurred in October of 1986, when the company-owned Distribution Center was closed. After a careful analysis of its cost of operation and its inability to provide variety and competitive product price to the convenience stores, operations were discontinued and the fixtures, and truck fleet were sold. Wholesale distribution is now being handled by national distributing companies for both the convenience stores and the supermarkets. The savings in purchasing power and shortened distribution routes plus the increase in variety of products should prove positive in the coming year.

Our primary business, the convenience stores, continues to experience growth in the rapidly expanding Southeast. In 1986, we opened 11 new stores and added 6 existing stores that were purchased from 7-Eleven in early December, 1986. These new stores will not only strengthen our marketing base in many key locations, but will give us a better geographic distribution and a more efficient alignment of our districts for management purposes. Also, the closure of 31 unprofitable stores will cut losses in secondary locations and will provide a stronger growth base for the company in 1987.

In 1986, our Real Estate Department provided us important site opportunities for future development. The sites we have selected for development in 1987 include locations in the Central Florida, Central Alabama, and the Florida Gulf Coast area. These new stores will increase our visibility and our marketshare in many high-growth areas of our region.

The total number of gallons of gasoline sold climbed to 83.9 million gallons in 1986. We are now more competitive in gasoline pricing and due to leadership in the area of petroleum sales and marketing we have been more responsive to the fluctuations in gasoline retailing.

To ensure that merchandising strategy is carried out and operations efforts maximized, a Company-wide training program has been established. This comprehensive program provides information to Sunshine-Jr. employees enabling them to be prepared and informed to handle the ever-changing environment in the retail industry. The training is an important part of every employee's initiation into the Company and continues throughout their service.

For stockholders, our success this year resulted in the declaration of a $.12 per share dividend in each quarter of 1986. This maintained dividends for the year at the same level as the last four years. The Company has paid an unbroken stream of quarterly dividends since it instituted them in August, 1974.

During the conclusion of a recent meeting with our management personnel, I remarked that "we are better prepared today to face the future than we have ever been before." I am proud of the changes we have made and view them as the foundation we have laid for continued progress.

Sincerely,

Lana Jane Lewis-Brent

Lana Jane Lewis-Brent, *President*
February 27, 1987

HISTORICAL SUMMARY: MUNFORD, INC.

Data Taken from the Annual Report
for the Year Ended January 1, 1987

Inventory Accounting: FIFO

	1ST SURVEY	5TH SURVEY	10TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
	YEAR ENDED							
	1/2/71	1/2/75	1/3/80	12/30/82	12/29/84	12/29/85	1/3/86	1/1/87
MUNFORD, INC. **Atlanta, Georgia**								
Number of Stores	928	1348	1184	959	916	835	837	792
Store Growth in Year		102	-27	-28	-43	-81	2	-45
Store Days	338,720	472,108	439,264	354,172	341,250	324,770	304,304	298,298
Sales per Day	$307	$423	$586	$829	$845	$931	$1,101	$962
Sales Growth $DPD		$19	$57	$91	$16	$86	$79	-$48
Pretax Profit $DPD	$5.86	$12.01	$2.22	$15.20	$19.50	$24.71	$23.15	$27.05
After Tax Profit $DPD	$2.90	$6.68	$1.34	$10.38	$13.14	$17.24	$17.48	$14.88
Store Closures			-119	Not Given	43	—	24	—
Gasoline Units		266	555	481	469	440	459	448
$DPD Ranking	8/10	10/13	13/13	10/12	10/11	7/9	6/8	5/8

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 792 Majik stores in fourteen states on January 1, 1987. The company also operates other divisions with total sales of $131,331,000.

1. Sales:
   The annual report states that Majik Market sales were $328,170,000. The 10K states that gasoline sales from 270 stores are included in Majik Market sales. The annual report states that Majik increased its gasoline gallons to over 400 million gallons in 1986. The reports have not stated the number of gallons sold from Company operated gasoline units since 1982. For the last several years we have assumed that these continue to be very low gallonage units and that the average company operated gasoline unit only pumps 500 gallons of gasoline per day. We are estimating that these 270 units pump just 182,000 gallons annually, or a total of 49,140,000 gallons. At 7-Eleven's average retail price for the year of 83.9¢, this amounts to $41,228,460 in sales. We have deducted this $41,228,460 from convenience store sales as shown in the annual report and estimate that convenience store in-store sales are $286,941,540. When these sales are divided by store days of 298,298, you arrive at average store merchandise sales of $962 per store per day. This is the best estimate we can provide given the small amount of information on convenience store results in either the Annual Report or the 10K.
2. Store Days:
   Store days of stores open all year: 792 × 364 = 288,288
   Store days for closed stores figured for 1/2 year only: 45 × 182 = 10,010
   Total Store Days: 298,298
3. Pretax Profit:
   The annual report states that the operating income from food store sales was $11,224,000. This was before net interest expense for the company of $6,306,000. Even though 72% of company sales are from the convenience store operating profit, we have again taken the charitable approach and have only deducted 50% of the interest expense. When you deduct this $3,153,000 from the convenience store operating profit, you obtain a convenience food store profit of $8,071,000. This profit of $8,071,000 divided by 298,298 store days creates a pretax food store profit of $27.05 per store per day.
4. After Tax Profit:
   We have arbitrarily applied a 45% tax rate to this figure to obtain an after tax profit of $4,439,050. This figure divided by store days creates an after tax profit of $14.88 per store per day.
5. Insufficient information is available to compute gross profit per store per day. A reasonable guess might be as follows:
   Average store sales $962 @ 35% store margin would create $337 margin dollars. If you add gasoline margin of $40.00 (500 gallons times 8 cents a gallon) you would have total margin of $377 per store per day.
6. On September 25, 1987, the Wall Street Journal reported that Munford is seeking offers to purchase some or all of its businesses. My hope is that the convenience store segment is sold. This will put it out of its misery, and may result in better figures being available from a new owner.

MUNFORD, INCORPORATED

EXCERPT FROM THE ANNUAL REPORT OF MUNFORD, INC., 1.1.87

To Our Shareholders

While 1986 could not be called a successful year profitwise for the Company, it was a year in which the conversion of the *World Bazaar* division was initiated with resounding positive results being produced in the fourth quarter. It was a year in which the *LeeWards* division, acquired in mid-1985, was tailored to a lean operating unit and expanded by four stores, with appropriate increases in sales and profits. It was a year when the *Majik Market* division set a record for profits. However, the profit problems of the *World Bazaar* division more than offset the profit improvement of the other parts of the Company.

Revenues reached a record $459,501,000 in 1986 compared to $456,562,000 in 1985, while earnings were reduced by costs associated with the *World Bazaar* conversion program. Net income was $1,641,000, or $.42 per share of common stock compared to $5,532,000 or $1.40 per share in 1985.

A massive refurbishing and remerchandising program in the *World Bazaar* division, based on detailed market surveys and outside retail expertise, produced dramatic results in the 53 stores which were upgraded during 1986. Sales in the fourth quarter, the first test of the new concept, increased an average of 35 percent over the previous year on a same store comparison. Earlier in the year, the same stores were behind the previous year.

Implementation of this tried and now proven successful *World Bazaar* program will continue in other selected market areas in 1987. An additional 50 stores will be refurbished by the end of the second quarter of 1987. This will allow *World Bazaar* to enter the third quarter with more than 100 new-concept stores to take full advantage of the entire second half and the best retailing period of the year.

Some *World Bazaar* stores are approximately 20 years old and in shopping centers and malls that have been bypassed by new consumer centers. These stores will be closed, as tests have clearly indicated that they would not be viable operations in the future. In anticipation of both the expansion of the rejuvenation program and store closings, an additional before tax charge of $2,000,000 was taken in the fourth quarter of 1986. The rejuvenation program may require some further write-downs of store merchandise to achieve quick movement in 1987, but the amount will be small compared to that of 1986.

The conversion and rejuvenation of the *World Bazaar* stores was not an inexpensive operation. New lights, new store fronts, new floors, walls and ceilings, improved displays, painting throughout and the write-down of millions of dollars of older merchandise was involved. In addition to these charges, the Company's older rattan factory in Bangkok, Thailand was destroyed by fire with the production of this plant being transferred to the Company's plant in Cebu City, the Philippines. Termination pay and other expenses of closing out the operation, not covered by insurance, was a substantial amount and was also written off in 1986.

The *Majik Market* division led the Company's operating performance with a profit growth of 14.4% and a marked increase in gasoline gallons sold, even though it had lower revenues due to reduced gasoline prices. Seventy-five of the older *Majik Market* stores were remodeled under a four year, $12,000,000 remodeling and remerchandising program begun in 1986 with 125 additional stores scheduled for 1987. Fifty completely new stores are also planned for 1987. Gasoline margins are under heavy attack and will present a profit problem in 1987 if the surplus of gasoline brought on by the surplus of heating oil and the higher price of crude oil does not correct itself.

MUNFORD, INCORPORATED

EXCERPT FROM THE ANNUAL REPORT OF MUNFORD, INC., 1.1.87

(L to R) Russell C. Fellows, President and Chief Operating Officer; Dillard Munford, Chairman of the Board and Chief Executive Officer; James M. Carroll, Executive Vice President — Finance and Secretary.

LeeWards, embellishing its leadership in craft retailing, launched a major expansion program, achieving record sales in December and increasing its profit contribution, before interest, by more than 10 percent for the year. On the day after Thanksgiving, the division had the highest sales volume for a single day in its history, with over 55,000 customers visiting the 51 *LeeWards* stores. *LeeWards* also plans to add more popular home decor lines in addition to its crafts mainstays.

A very strong contribution to the Company's profits was again realized from Munford, Inc.'s 43.8 percent holding in United Refrigerated Services, Inc., a leading refrigerated warehouse and distribution firm with 30 facilities in the United States. United achieved its fourth consecutive record earning year in 1986. Further, it is positioned for future earnings growth, adding 5.9 million cubic feet of space through additions to 3 facilities. In addition, Munford, Inc.'s ownership percentage increased effective January 1, 1987, to 45.7% due to United's repurchase of outstanding shares into treasury.

International operations also were profitable in 1986 under the Company's new license agreements with a Caltex Petroleum subsidiary which operates 38 *Majik Market* stores in Australia and with a Malaysian firm operating seven *Majik Market* stores in Kuala Lumpur.

Munford, Inc. is being moved with deliberate speed into the retail specialty field. The *World Bazaar* and *LeeWards* divisions each have a niche in which they can specialize and more expansion and specialization can be expected in these divisions. Mr. Fred Mershad, formerly Senior Vice President — Merchandising for Maas Brothers' 22 department stores, is the new President of the *World Bazaar* division and Mr. David Bolen, formerly Vice President of Operations of the 52 Gemco stores on the West Coast, is the new Vice President of Operations for *LeeWards*. Other retailing specialists will be added as demands arise and as opportunities occur within the specialty retailing field.

A new operation will be started in 1987, as the first *LeeWards* franchise store will be offered to the public. Since the *World Bazaar* franchise program has been so successful and is ranked right at the top of national franchise programs, it is believed that the Company can offer another successful franchise with *LeeWards*. In fact, the first *LeeWards* franchise will probably be taken by an existing *World Bazaar* franchisee.

It is expected that 1987 will be a much better year than 1986 as many of the *World Bazaar* changes have been, or are being made and *LeeWards* is getting better almost every day. *Majik Market* will be hurt to some degree by gasoline margins, but this should stabilize by mid-year.

Although 1986 was most unpleasant for the Company, when the cause of a problem is identified and the medicine works, the future looks good.

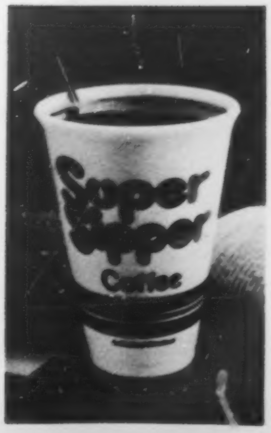
Dillard Munford
Chairman of the Board and
Chief Executive Officer

Majik Market

Majik Market posted record profits in 1986, continuing its strong growth pattern of recent years, even though total revenues for the year were reduced by lower gasoline prices.

A major renovation and merchandising program, *Super Stuff*, was kicked off in 1986 with a $2 million initial phase. Over the next three years, the program calls for an additional $10 million investment in upgrading stores. In 1986, the division completed renovation of 75 *Majik Market* stores, resulting in higher per store sales for those units. An additional 125 stores are scheduled for refurbishing in 1987.

Introducing the new food service concept, *Super Stuff* includes strong graphic displays, repainting and modernizing store interiors, plus more innovative and aggressive marketing. *Super Stuff* features a new beverage area with six flavors of non-carbonated soft drinks as well as an expanded coffee service. In addition, *Majik Market* has begun labeling its own line of food items under the *Super Stuff* brand. Included in this new line are breakfast items and Mexican food. A new training program for store personnel has been developed to enhance the success of the program.



Majik Market has the highest volume of gasoline sales per store of any major convenience store chain and has proven that by properly merchandising convenience store items, gasoline volume can be appreciably increased without a reduction in the price of gasoline. *Majik Market* increased its gasoline volume to over 400 million gallons in 1986. This is why *Majik Market* operates more convenience store/gasoline units for major oil companies than any other convenience store operation. In its growth plan, the division continues to emphasize the opening of high-volume units which have the capacity to pump more than one million gallons per year and is regularly adding more of these units.

MAJIK MARKET

Continuing its effective asset-management approach, *Majik Market* plans to open approximately 50 new stores in 1987, while continuing to close units which do not fit into the Company's long-range profit strategy. With its highly successful methods being augmented by the new merchandising and renovation program, the *Majik Market* division is poised for continuing strong growth.

HISTORICAL SUMMARY: SILCORP LIMITED

Data Taken from the Annual Report
and 10 K for the Year Ended

	INVENTORY ACCOUNTING: FIFO		
	15TH SURVEY 12/30/84	16TH SURVEY 12/29/85	17TH SURVEY 12/28/86
SILCORP LIMITED **Mississauga, Ontario**			
Number of Stores	922	983	1053
Net Store Growth in Year		61	70
Store Operating Days		346,710	384,434
Sales Per Day Per Store		$978	$1,041
Sales Growth $DPD		—	$63
Gross Profit Percentage on Total Sales	29.17%	28.97%	29.51%
Total Gross Profit Dollars Per Store Per Day		$283	$307
% Increase in Gross Profit Per Store Per Day		—	8.5%
Operating Cost Per Store Per Day		$275	$294
% Increase in Operating Cost Per Day			6.9%
Profit Per Store Day Pre Tax ($US)		$8.40	$12.51
After Tax Profit Per Store Per Day		$4.80	$4.33
Store Closures			
Gasoline Units		34	58
$DPD Ranking			6/8

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 1053 stores in Canada, Michigan, Virginia, North Carolina and Tennessee.

1. The Annual Report states that merchandise and other sales were $567,666,000 in 1986.
   Baskin Robbins sales were $15,127,000. Convenience store sales were thus $552,539,000 ($403,353,470 U.S.) not including gasoline sales of $83,868,000.
2. Store Days:
   Store Days of Stores open all year 983 × 364 = 357,812
   Store Days for Mike's Mart acquisition 1/3/86 78 × 360 = 28,080
   Store Days for closed stores 1/2 year only 8 × 182 = 1,456
   Total Store Days 387,348
3. Sales Per Store Per Day:
   Sales of $552,539,000 divided by store days of 387,348 equals average sales of $1,426 per store per day.
   These sales are a bit overstated since the Mike's Mart division sales include some wholesale distributing sales.
   Sales of $1,426 have been translated to U.S. currency at the year end rate of U.S. $0.73 = $1.00 Canadian or $1,041.
4. Pretax Profit:
   Total Silcorp pretax profit of $6,642,000 ($4 848,660 U.S.) divided by 387,348 store days equals a pretax profit of $17.14 per store per day.
   Adjusted for U.S. funds it is $12.51.
   Baskin Robbins profits are included in this figure but are not estimated to be significant.
5. After Tax Profit:
   Total Silcorp after tax profit of $2,304,000 ($1,681,920 U.S.) divided by store days equals an after tax profit of $5.94.
   Adjusted for U.S. funds it is $4.33.

SILCORP LIMITED

EXCERPT FROM THE ANNUAL REPORT OF SILCORP LIMITED, 12.28.86

To Our Shareholders

Fiscal 1986 was a year of both accomplishment and challenge for Silcorp Limited. We achieved sales growth targets, increasing profitability in four of our five divisions and additional strength in our balance sheet. However, our quest to achieve the stated net earnings and return on equity objectives remained unfulfilled.

Consolidated sales for the year ended December 28, 1986 increased 18.2% over 1985, consolidated operating income increased 43.4% and income before taxes increased by 66.2% while net earnings increased only 1%.

In 1986, sales of $651,534,000 increased by $100,350,000 or 18.2% over the prior year. Included in this total were sales of $52,085,000 arising from the acquisition of Mike's Mart convenience stores (Convenience Services Limited) on January 3, 1986.

Consolidated operating income increased 43.4% to $14,551,000 despite a higher operating loss in the U.S. business segment of $1,005,000 due to Hop-In division performance in the mid-Atlantic states. Canadian operations generated operating income of $17,424,000, a 45.0% increase over the $12,018,000 recorded in fiscal 1985.

Income before taxes grew by a substantial 66.2% to $6,642,000 in fiscal 1986.

However, the 1986 income tax provision of $4,338,000 reduced consolidated net earnings to $2,304,000, only 1.0% higher than the prior year. Earnings per basic share were $0.83 in 1986 compared with $0.85 in 1985. Net earnings were negatively impacted by approximately $788,000 because of our inability in 1986 to offset all losses incurred in the Hop-In Food Stores division, Roanoke, Virginia, against other taxable earnings in the United States. In Canada, the elimination of the tax benefit associated with the inventory tax credit further reduced net earnings by $497,000 for 1986. And, finally, the increase in Canadian corporate tax rates reduced net earnings by $122,000.

It was a year characterized by important milestones. We began 1986 with the announcement on January 3 that we had completed the acquisition of Convenience Services Limited of Barrie, Ontario, operating 78 Mike's Mart convenience stores and an integrated wholesale subsidiary. This acquisition has proven both strategically and financially beneficial, giving us a dominant market position in Central and Northern Ontario. This division achieved sales of $52,085,000 in 1986, exceeded our projections and made a positive contribution to Silcorp net earnings after allowance for all carrying costs and provision for annual goodwill amortization.

On June 26, 1986, Silcorp successfully issued $60,000,000 8% convertible subordinated debentures (unsecured and redeemable) which enabled us to retire all other secured bank borrowings and long-term debt from our balance sheet.

Our continuing confidence in the ability of this Corporation to achieve its goals is based not only on our strong positioning within the North American convenience and specialty retail sectors but also on the quality of the people of Silcorp and all of its operations. The divisions are managed by experienced, aggressive industry leaders. Throughout the organization they are building an exciting, involved and consumer-oriented team of store managers, dealers, and franchisees with their friendly, committed staffs. There is a pride of performance permeating the retailing staff in all divisions as people recognize their leading position within our industry and strive to maintain that leadership.

Booming commercial real estate markets have tended to increase retail occupancy costs and have slowed new store growth in Mac's Convenience Stores, Mike's Marts, and to a lesser degree Baskin-Robbins. Nonetheless, during 1986 Silcorp expanded its store network substantially. The acquisition of the Mike's Mart chain added 78 stores, while an additional 80 new retail stores were opened across all divisions. A total of 65 stores which no longer met operating criteria were disposed of, thus generating a net store expansion throughout the Corporation of 93 stores. At year-end 1986, the Silcorp store network totalled 1,242 . . . 789 Mac's Convenience Stores, 79 Mike's Marts and 189 Baskin-Robbins Ice Cream Stores in Canada; 128 Hop-In Food Stores in Virginia, North Carolina and Tennessee and 57 FarrView division outlets in Michigan.

Despite the diversity of economies across its marketplace and intense competition, the Mac's Convenience Stores division set new records for sales and operating income and continued its leadership of the Canadian convenience store marketplace. Mac's total sales increased 8.6% in 1986 while operating income increased 11.1%.

The ever-changing concept of consumer convenience needs is being met by Mac's as it continually modifies its consumer offering of product categories and services. The increasing focus on the fast food and premium coffee sector and services such as video movie rentals, lotteries and financial services typify this commitment to leadership.

This division continues its concentration on development of new prime site locations with increasing involvement

Eric F. Findlay and Robert S. Maich

in self-serve gasoline installations. This awareness of changing consumer trends brings about an increase in store disposals as Mac's ensures that its facilities are state-of-the-art and consumer-friendly, appealing to the customer of today *and* tomorrow.

The positive success of the Baskin-Robbins divison during 1986 within a slow growth ice cream market reflects a series of strategies undertaken by management commencing some three years ago.

In 1984, we described our investment in modernizing production facilities at Peterborough, Ontario, together with the development of a distinct change in store presentation, new location criteria and totally revised consumer marketing concepts. The comment was made then that "the effect of these changes will appear in sales and profit growth in the years ahead".

That expectation was further enhanced in 1986 as this division increased its store network by 14%, increased wholesale sales by 15% and system-wide franchisee retail sales by 20%, while more than doubling its 1985 operating income performance.

Attainment of Silcorp financial goals continued to be negatively affected by the loss performance of the Hop-In division operating in Virginia, North Carolina and Tennessee. Despite a concentrated effort by a strengthened management team, this division generated increased losses during 1986.

The start-up costs of new stores opened in 1986, combined with new stores opened in late 1984 and 1985 which were not at full profit potential, generated an increase in operating losses. However, the second half of 1986 produced a steadily growing number of customers and accelerating sales trends in both merchandise sales and gasoline gallonage that gained momentum as the effects of the programs instituted became more evident to existing and potential Hop-In customers. While the cost of implementing these programs precluded a reduction in the operating losses during the last half of the year, the sales momentum generated gives this division a strengthened opportunity for significant loss reductions in 1987.

Mention should be made of the approach by Crown Central Petroleum Inc. of Baltimore, Maryland to Silcorp regarding the purchase of the Hop-In Food Stores division. In view of our commitment to shareholders, it was concluded that we should enter into negotiations to ascertain whether an acceptable sale of assets could be achieved. On November 25, 1986, a letter of intent was signed with the objective of closing the transaction in late December, 1986. However, just prior to the finalization of a definitive agreement, Crown Central Petroleum declared that they were not in a position to comply with Virginia "petroleum divorcement laws" and thus they could not complete the purchase.

Our FarrView division in Michigan experienced an excellent and increasingly profitable year in 1986, while stabilizing its operations by fully completing the integration of the Pump 'N' Pantry acquisition. Sales of this division increased 9% and operating income increased 42% over the levels attained in 1985. With the current implementation of new marketing programs by this division's strengthened management team, we anticipate a continuing growth pattern to emerge over the coming years.

Despite the problems evident within the Hop-In divison, Silcorp management remains confident that, given time, this division can become profitable. Together with the profitable FarrView division in Michigan, we remain committed to developing a significant presence in the United States marketplace.

We record with regret the death of William P. Pigott of Hamilton, Ontario, on March 13, 1986. Bill Pigott had served as a director for seven years and had made an outstanding contribution on behalf of all shareholders. He was a man who understood the value of the free enterprise system to Canada — a man who practised it with every fibre in his body. He was a man of principle and a leader among Canadians.

On August 1, 1986, Gordon R. Carton, Q.C., Director, General Counsel, Secretary and Vice-President, Legal and Corporate Affairs, reached retirement age. Gordon joined the Silcorp (then Silverwood Industries) executive group in April, 1974 following retirement as Minister of Transportation and Communications in the Government of Ontario. He served the Corporation well over those twelve years and we will genuinely miss his counsel.

On October 1, 1986, William P. Thomas was appointed Vice-President, Secretary and General Counsel of Silcorp Limited. He has had extensive experience as General Counsel over the last fourteen years with two leading consumer and industrial marketing organizations headquartered in Ontario.

SILCORP LIMITED

EXCERPT FROM THE ANNUAL REPORT OF SILCORP LIMITED, 12.28.86

On August 19, 1986, Peter C. Maurice, Senior Executive Vice-President, Canada Trustco Mortgage Company, was appointed to our Board of Directors. Peter has been an executive with Canada Trust over the last 14 years. He brings great strength and knowledge in the financial field to your Board of Directors.

We reiterate the commitment of management to its primary strategic goal, first stated in 1984 . . . to achieve a minimum 15% return on beginning shareholders' equity per annum by fiscal year 1989. Appraising the return on equity performance over the past three years ranging from 7.3% in 1984, 5.7% in 1985 and 5.3% in 1986 would indicate little progress in accomplishment of this goal. However, deeper assessment and analysis of this corporation's progress during the same time period would indicate that this goal continues to be realistic and achievable. It is important to note that, apart from our current difficulties with the Hop-In Food Stores division, which we are determined to change, our return on equity in 1986 would have approximated the 15% minimum goal.

As we look to the longer term future, we remain confident of this Corporation's ability to meet the challenges and achieve the opportunities that face us in North America. Our leadership position in the Canadian convenience store and specialty retail industry provides us with a strong base for continued profitable growth and expansion in this country.

We are at the formative stage of our entry into the United States. During the past few years, the experiences gained in this market and the changes of strategy under consideration continue to indicate realistic opportunities for a profitable and tangible presence for Silcorp in a growing number of markets in the United States.

As a corporation committed to long term profitable growth in North America, we are truly on the move. Our people are dedicated to building the business through a North American network of stores.

Sales are expected to approximate $720,000,000 in 1987, with capital expenditures on the order of $24,000,000 for the year. In 1987, our plans call for a net increase in total store count of approximately 40 locations developed through the real estate process. In addition, we are committed to accelerating growth through acquisition.

We are most grateful for the support of our shareholders and the dedicated team of people that comprise the Silcorp organization. Working together, the future of this Corporation appears exciting.

Eric F Findlay
Eric F. Findlay
Chairman of the Board

Robert S. Maich
Robert S. Maich
President

In November 1986, your President, Robert S. Maich, was named to serve as Chairman of the National Association of Convenience Stores headquartered in Washington, D.C. This appointment is not only a distinct personal achievement but one that reflects on and emanates from the position being achieved within the North American convenience store industry by your Corporation, led by Robert S. Maich as its President.

HISTORICAL SUMMARY: DAIRY MART CONVENIENCE STORES, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended January 31, 1987

Inventory Accounting: FIFO

	10TH SURVEY	11TH SURVEY	12TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
	YEAR ENDED							
	1/31/80*	1/31/81*	1/31/82*	1/31/83	1/31/84	1/31/85	1/31/86	1/31/87
DAIRY MART CONVENIENCE STORES, INC. **Enfield, Connecticut**								
Number of Stores	79	94	140	143	176	200	933	1,207
Store Growth in Year	6	15	46	3	33	24	733	274
Store Days	29,927	31,659	42,682	51,646	58,201	68,808	170,750	369,863
Sales per Day	$1,057*	$1,045	$934	$1,009	$1,194	$1,147	$1,580*	$1,148
Sales Growth $DPD	—	—	-$111	$75	$185	-$47	$433	$1*
Gross Profit Percentage						24.2%	29.8%	28.8%
Total Gross Profit Dollars						$17,588,727	$76,813,383	$114,886,350
Gross Profit Dollars Per Store Per Day						$302	$450	$311
% Increase in Gross Profit Per Store Per Day						—	—	2.78%
Operating Cost Per Store Per Day						$278	$429	$322
% Increase in Operating Cost Per Day						—	—	15.6%
Pretax Profit $DPD	$2.35	$10.93	$.48	$11.27	$31.61	$23.98	$21.34	-$10.95
After Tax Profit $DPD	$1.86	$2.30	$.41	$8.50	$17.55	$18.78	$12.98	-$9.51)
Store Closures	2	2	23	11	10	7	46	45
Gasoline Units				28	28	35	137	415
$DPD Ranking				11/12	7/11	8/9	7/8	7/8

BASIS FOR PROFIT PER DAY DETERMINATION

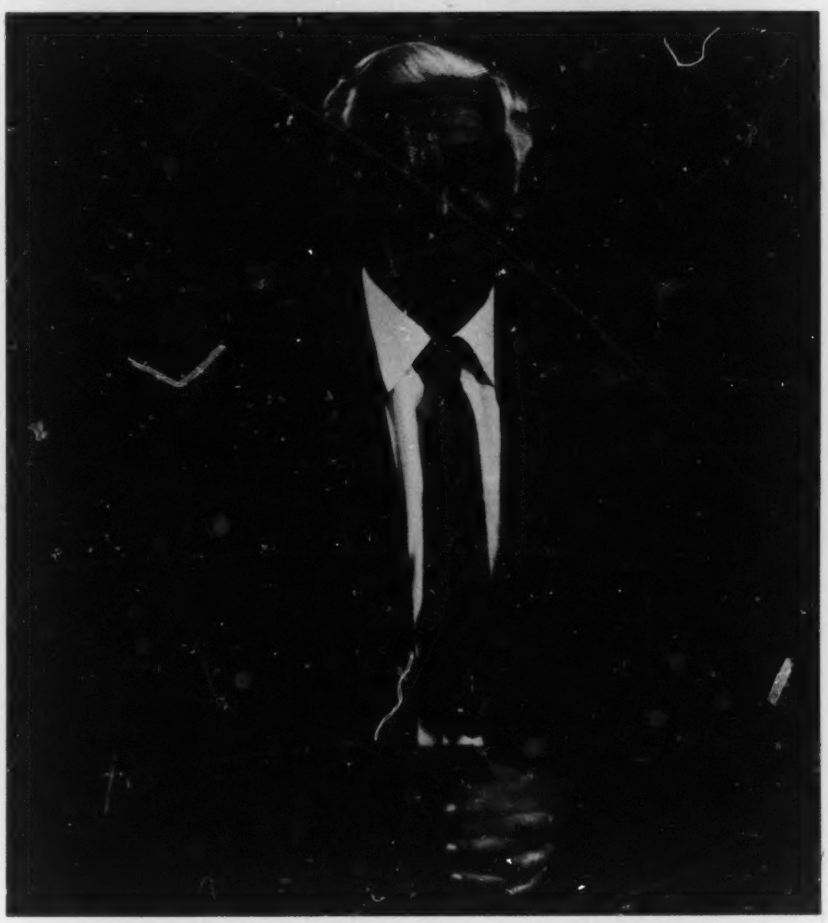
Dairy Mart operated 1,207 stores in 11 states on January 31, 1987. 416 of these stores were franchised to independent franchisees.

1. The annual report states that net sales of the company, its subsidiaries, and franchises were $482,717,000 for the year. It also states that $57,934,743 of these sales were from gasoline. Store sales were thus $424,782,257.
2. Store Days:
   Store days of stores open all year: 933 × 365 = 340.545
   Store days of new stores figured for 1/2 year only: 274 × 107 = 29,318
   Total Store Days: 369,863
3. Sales per Store per Day:
   Store sales of $424,782,257 divided by 369,863 store days equals average sales of $1,148 per store per day for the year.
4. Pretax Loss:
   Pretax loss of $4,049,735 divided by 369,863 store days results in a pretax loss of $10.95 per store per day.
5. After Tax Loss:
   After tax loss of $3,515,735 divided by 369,863 store days results in an after tax loss of $9.51 per store per day.
6. *Gasoline not included in above sales figures from February 1, 1980 forward.
7. Became a public company at the end of July 1983.
8. 587 stores, or 49% of stores open 24 hours. 218 stores opened 24 hours in the year.
9. Annual Report states they are now the 3rd largest convenience store chain in America.

*10. The dramatic increase in sales per store per day may be because the stores they purchased had far greater sales per day than the original Dairy Mart Stores, or it is possible that Lawson's sells some milk to other companies. There is no mention of this in the Annual Report. Future reports should clarify this situation. (This note from the 1986 Survey). 1987 sales per store per day show more traditional sales patterns. We have excluded the 1986 sales per day from sales growth and are using a two year sales growth of $1.00 per store per day. 1986 sales per store per day probably are the result of incorrect store days. The same approach was taken to gross profit computation.

11. 20% of the inventory now valued at FIFO. Effect was to reduce the loss before income tax by $320,000 or $.87 per store per day.

MESSAGE TO STOCKHOLDERS



Charles Nirenberg

We are in our fourth year as a public company. Back in 1983 when we first went public, I promised you, the stockholders, that I would report to you very candidly both in good times and in bad. In the past three years we have been able to show an astounding growth rate both in sales and profits. This year, that growth rate continues in sales, but, I am sorry to say, we did not achieve a commensurate profit. In fact, for the first time in our history, Dairy Mart had a net loss for fiscal 1987. That you may better understand the total Company, we have changed our format for this annual report to allow each of our three divisions to report separately.

You will notice that our newest division, the CONNA Corporation, which was acquired on October 17th of 1986, has already made a positive contribution. We welcome Joe Peden and Bob Johnson, Chairman and President, respectively, of CONNA into our fold. We expect great things from them this coming year. In 1986 CONNA concluded its best year, in spite of the fact that CONNA's management had to expend much time, effort, and money to fight off a takeover attempt by their national franchisor. In February, after the closing of our fiscal year, CONNA concluded a contract with British Petroleum Overseas International to help it develop convenience stores in at least three countries. CONNA's Remote Services Group, which sells gasoline to approximately 270 stations, should more than triple our gasoline volume. And so in 1987, I look for CONNA to become a great contributor to Dairy Mart's profits.

The New England Division has always been a profit maker and continues to be. It is, in fact, a greater profit maker than the numbers would reveal because the New England Division also absorbs most of the corporate overhead of the parent company. So for Larry Handler, its President, and his team of executives in New England, I have every confidence that they will continue to have a good year in 1987.

And now we come to the Midwest Division. This division by the fact of its size, operating 720 stores in the Midwest, is the pivot point for success of the entire company, and I am personally confident we have most of our problems behind us. But there is no doubt that 1986 was a trying year in Cuyaho[illegible] [illegible]hio, our Midwest home of[illegible] with the labor strike at the [illegible] and continued through boyco[illegible]andalism of stores, the shooting of a security officer, and ultimately a milk poisoning scare. So,

[redacted]

"Because of our difficulties in the Midwest Division, we have fallen one year behind, but I have every confidence in a good and profitable year in fiscal 1988."

we had difficulties. But, most of all, it was a time for the changing of the guard. A new team was established in Ohio under the leadership of Steve Montgomery, its President. Although much of the old team stayed in place, they had to learn a new philosophy—the philosophy of making entrepreneurs out of managers; the philosophy of passing responsibilities down the line. Before year-end, two new Vice Presidents were appointed. One, Chyuan Yang, was promoted from Regional Manager in New England to take charge of Operations for half the Midwest Division's stores. Another, Jim Hammitt from Ohio, was promoted from Regional Director to Vice President of Operations for the other half of the Midwest Division's stores. But the most significant change took place in the position of Chief Financial Officer when on December 1, 1986, Bob Stein, Treasurer and Chief Financial Officer of the New England Division was moved to the Midwest Division to become its Vice President and Chief Financial Officer. During a review of the operation, Bob Stein discussed with me a number of adjustments totaling in excess of $1 million, thereby causing a reduction to our original estimate of fourth quarter earnings in the Midwest Division.

Upon learning of the actual severity of Lawson's losses, I committed my energies and expertise to the operations of our Midwest Division. I am confident that, although the strike continues, we now have it all for the most part behind us and can look forward to a much cleaner and better position for the year to come. Although we cannot know what the future will bring, I believe that in 1987, the Midwest Division will regain its pride and that our largest division will also become our largest profit maker.

Now, to combine the results of Dairy Mart Convenience Stores, I can report to you that in fiscal year 1987, although sales increased to $483 million, an increase of 65% from $292 million (substantially as a result of the acquisition of CONNA Corporation and a full year of operations of the Midwest Division), our net income dropped to a loss of $3.5 million. The reasons for this loss are several. First, as part of our program to recover sales lost due to the strike in the Midwest, we instituted a series of promotions and price reductions. We were successful in recapturing store volume, since we achieved a 5.6% increase in per store average Midwest store sales for the fourth quarter compared with the same period of the previous year. However, the cost of achieving this sales gain was a significant decline in store margins. Margins are currently being restored without experiencing any significant loss in store volumes.

Second, Dairy Mart chose to write down and sell most of our marketable securities, resulting in a $440,000 net loss. In addition, we absorbed further unanticipated fourth quarter charges in excess of $1 million. Finally, with the recent filing of a petition for decertification of the union representing the Mid West division's dairy plant employees, the likelihood of a resolution of the ongoing labor dispute seems more remote. Should the labor dispute not be resolved, we would incur a union pension withdrawal liability of approximately $3.3 million, and due to the current status of this ongoing labor dispute, we chose to book the anticipated estimated union pension withdrawal liability at this time.

At the end of fiscal 1987, Dairy Mart had 1207 stores in 11 states. This compared with 933 stores in 7 states in 1986. Fiscal 1987 was, of course, a disappointing year for all of our stockholders, including me, Dairy Mart's largest stockholder. Because of our difficulties in the Midwest Division, we have fallen one year behind, but I have every confidence in a good and profitable year for fiscal 1988.

Very truly yours,

Charles Nirenberg

Charles Nirenberg
Chairman of the Board
Chief Executive Officer

HISTORICAL SUMMARY: NATIONAL CONVENIENCE STORES

Data Taken from the Annual Report
and 10 K for the Year Ended June 30, 1987

Inventory Accounting: FIFO

	1ST SURVEY	5TH SURVEY	10TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
	YEAR ENDED							
	6/30/71	6/30/75	6/30/80	6/30/83	6/30/84	6/30/85	6/30/86	6/30/87
NATIONAL CONVENIENCE STORES **Houston, Texas**								
Number of Stores	487	801	817	1,012	1,081	1,130	958	950
Store Growth in Year	31	-7	11	90	69	49	-172	-8
Store Days	172,113	292,365	296,192	352,910	383,019	403,484	402,996	348,214
Sales Per Day	$418	$552	$1,036	$1,214	$1,367	$1,393	$1,397	$1,478
Sales Growth $DPD	$57	$121	$117	-$84	$153	$26	$4	$81
Gross Profit Percentage on Store Sales						—	36.6%	37.1%
Gross Profit Dollars Per Store Per Day						—	$511	$548
Gross Profit Dollars Per Store Per Day From Gasoline						—	$95	$94
Total Gross Profit Per Store Per Day						—	$606	$642
% Increase in Gross Profit Per Store Per Day						—		5.9%
Operating Cost Per Store Per Day						—	$596	$670
% Increase in Operating Cost Per Day						—		12.4%
Pretax Profit $DPD	$7.07	$5.87	$44.88	$65.03	$75.75	$58.33	$10.30	$-28.42
After Tax Profit $DPD	$4.41	$4.30	$27.18	$40.31	$48.16	$38.43	$8.88	$-15.64
Store Closures	10	71	28	92	35	44	254	38
Gasoline Units	35	282	446	695	775	824	713	723
$DPD Ranking	6/10	12/13	3/13	2/12	2/11	3/9	8/8	8/8

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 950 stores in six Sun Belt states on June 30, 1987, under the "Stop 'N' Go" name. 71% of the stores are in Texas. Approximately 30% of the stores are in Houston.

1. The annual report states that sales were $515,000,000.
2. Store Days:
   Store days of stores open all year: 950 × 365 = 346,750
   Store days of closed stores for 1/2 year only: 8 × 183 = 1,464
   Total Store Days: 348,214
3. Sales per Store per Day:
   Store sales of $515,000,000 divided by 348,214 store days equals average sales of $1,478 per store per day for the year.
4. Pretax Profit:
   Pretax loss of $9,898,000 has been divided by store days of 348,214 to arrive at a pretax loss per store per day of $28.42.
5. After Tax Profit:
   After tax loss of $5,445,000 has been divided by store days of 348,214 to arrive at an after tax loss per store per day of $15.64.

NATIONAL CONVENIENCE STORES

EXCERPT FROM THE ANNUAL REPORT OF NATIONAL CONVENIENCE STORES, 6.30.87

President's Interview

The following interview was conducted with V.H. Van Horn, president and chief executive officer of National Convenience Stores. The questions include those most frequently asked by the investment community. The answers deal frankly with the Company's fiscal 1987 loss, explain actions taken to improve short-term results, and convey our optimism with regard to the Company's long-term prospects.

How would you assess fiscal 1987 for National Convenience Stores?

It was a difficult year. Revenues were $828 million, down from $950 million a year earlier, and the Company lost money. However, we believe many of the adverse factors that affected our performance are now behind us, which suggests the Company could be profitable in fiscal 1988.

The sales decline in fiscal 1987 was principally due to an 11% decrease in the average number of stores in operation due to the sale of 186 stores late in fiscal 1986. Additional revenue declines resulted from a 21% decline in the retail price of gasoline.

NCS continued to be plagued by depressed economic conditions in Texas with same-store merchandise sales declining in most of our Texas markets during the year.

Thirty percent of our outlets are in Houston and another forty percent are in other Texas cities. Additionally, competitive pricing pressures squeezed merchandise margins, and gasoline margins were below normal.

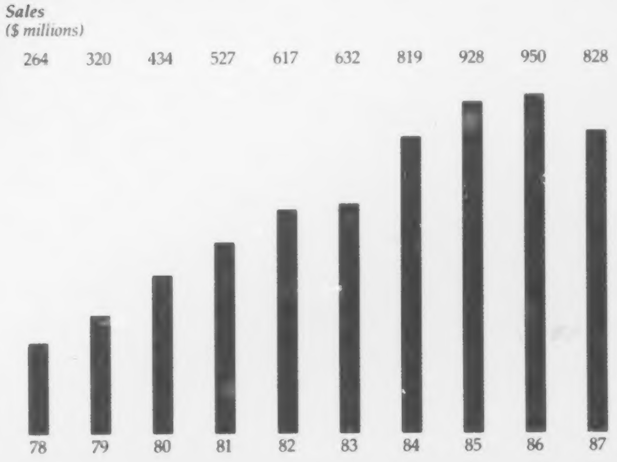
Thus, with weak revenues and poor margins, the Company sustained a disappointing loss even though we made substantial progress on reducing costs.

Can you review the cost reductions and explain how these steps enhanced productivity?

General and administrative expenses in fiscal 1987 were $7.2 million below the prior year level. This was accomplished by consolidating district offices, centralizing support functions and streamlining corporate operations. Twenty field offices were closed and headcount was reduced by eighteen percent.

Store operating expenses were also attacked, and several million dollars of savings were realized in the areas of labor costs, inventory shrink, and utility expense.

Marketing was consolidated in the corporate office in Houston to leverage NCS' size and buying power, and



to develop a comprehensive overall strategy for all markets, including consistent advertising and promotional programs. We also moved the field accounting staff to the corporate office to achieve cost savings through economies of scale as well as better financial controls.

We also feel that we gained significant operating efficiencies by moving our district managers out of remote offices and having them work out of one of their stores. This enables them to focus 100% on store operations without the distraction of administrative functions.

Returning to this year's results, why were the Company's merchandise and gasoline gross margins stronger in the first half of the year than in the second half?

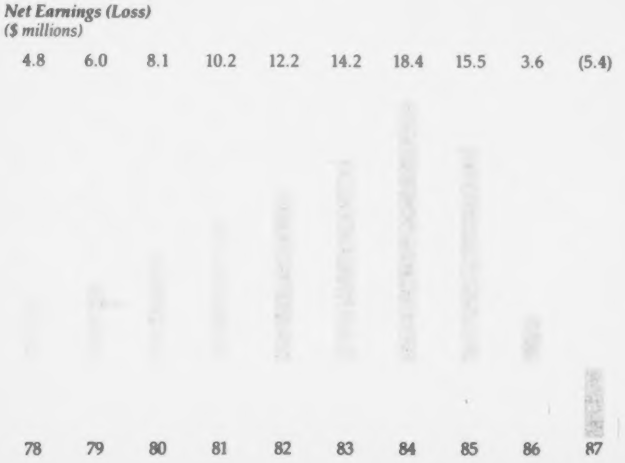
We began fiscal 1987 well with a relatively strong first quarter, but midway through the second quarter we were forced, in Houston, to reduce prices on several high-volume categories and to raise advertising expenditures in response to increased merchandise competition.

These competitive pressures spread to other Texas markets later in the year, albeit in a less aggressive manner, further impacting the Company's results. These pressures came on top of problems associated with the declining economies in those other Texas markets, most notably Austin and Dallas/Ft. Worth.

Our profitability was also impacted by relatively low gasoline margins during the second half. Part of this was our own doing as we chose to price gasoline in our new Hex units more aggressively in order to build volumes. However, the larger part of the problem is that crude oil and refined product prices rose steadily during the second half, causing some compression of gasoline margins at the retail level. Gasoline gross margins during the second half averaged 6.5¢ per gallon, as compared with a long-term trend in the 8–8.25¢ range. Once crude oil prices reach equilibrium, we would expect margins to return to the 8–8.25¢ range.

Although gasoline margins have been weak, volume increases have been significant. In the fourth quarter of fiscal 1987, the Company achieved an 11% same-store gain in gallons sold and a 23% gain in total gallons sold.

◀ *Our broader product mix is another competitive advantage of the Hex store. About 25% of the floor space is devoted to high-margin fast foods; many of our Hex stores also have delis as part of their fast food presentation.*



Can you summarize how your Hex stores are distinctive from other convenience stores?

The Hex store is a very high-volume concept. It is designed to do over twice the industry's average merchandise sales and three to four times the industry's average gasoline sales. The Hex store brings to the market a number of major distinctions, including its size and shape—it is hexagonal and 3,100 square feet in size compared to the industry's standard rectangular store of 2,400 square feet.

The reason the Hex generates gasoline volumes dramatically higher than C-store industry norms, volumes that are similar to those of large major oil company units, is that it includes a massive canopy and a large number of product dispensers on a prime corner

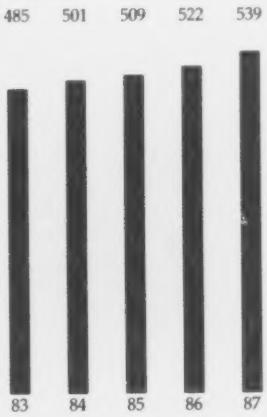
Health & Beauty
Jerky
Chips
Cigarettes
Newspapers

▲ *The Hex store is the best convenience store shopping experience available today. The physical layout, products and services offered, quality of the people, space, lighting, and security are the standard of the industry.*

location. We believe that the Hex gasoline presentation positions us to compete very effectively with major oil company operations.

Our broader product mix is another competitive advantage of the Hex store. For example, about 25% of the floor space is devoted to high-margin fast foods, including in-store seating. Many of our Hex stores also have delis as part of their fast food presentation.

Average Merchandise Sales Per Store
($ thousands)



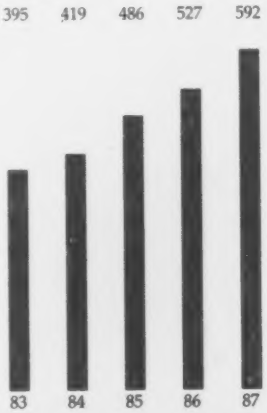
Experience has shown the Hex design produces sharply higher merchandise and gasoline volumes than the industry norm. This store allows us to attract more qualified people through better pay and working conditions and, in turn, has reduced employee turnover which can so often strain customer service and loyalty. Merchandise gross margins are higher because of the more favorable product mix.

Results at the Hex units clearly demonstrate that customers prefer our store design, the people, the products, and the services. Hex stores open for more than one year generated merchandise sales that were 22% higher than our conventional stores, and gasoline volumes over twice those of our conventional stores.

The Hex stores, as a group, reported a small loss in 1987; however, they were profitable outside of Houston. We believe that 1988 will be the first year Hex stores make an important profit contribution.

Our Hex construction program along with our policy of selling or closing obsolete units have significantly altered our store profile and will continue to do so. At the beginning of fiscal 1985, we had less than 5% of our stores in the large-store format. That figure has grown to 18%, and our store profile is now quite different from what is typical of the industry.

Average Gallons Sold Per Gas Store
(thousands)



▲ *In 1979, we opened the first of our 28 Superstores, the forerunner concept from which the Hex evolved. Today we have eight years of experience operating large, high-volume stores on prime corners.*

By committing over $100 million to the Hex, is NCS taking a major risk on an unproven concept?

Some industry observers believe the large-store concept to be risky. Our experience has proven otherwise. In 1979, we opened the first of our 28 Superstores, a 3,600 square foot store, the forerunner concept from which the Hex evolved. The Hex is somewhat smaller than the Superstore but continues its emphasis on three strategic product categories: fast foods, nonfoods, and gasoline. In fiscal 1985, the last year in which Texas had a reasonably healthy economy, the Superstores achieved average pretax profits of $119,000 each, approximately six times the profit earned by the average industry store.

Today we have eight years of experience operating large, high-volume stores on prime corners. Building on that record, we strongly believe the future of this Company and our industry lies in the large-store format.

Our major competitors are acknowledging this by building larger stores and bigger gasoline installations on prime retail corners. It was almost inevitable given the dynamics of the industry. Our advantage is one of timing. We did it first, we are well up the learning curve and we already have a sizeable portion of our Company in this format. We are the only major convenience store company to date that has broadened its customer base through store design.

To further enhance operations, in 1986, the Hex stores and the Superstores were merged into a new division, enabling a separate management team to focus solely on developing the strengths of the large-store concept.

What marketing developments do you foresee in fiscal 1988?

In 1988, our marketing effort is more oriented toward promotion of our competitive advantages and less oriented toward promoting specific products. For example, our recent merchandising program distinguishing the unique advantages of shopping at a Hex store has already helped generate same-store sales increases in Houston and has been introduced into Dallas and San Antonio.

We are also putting the final touches on a contemporary television advertising campaign that has been favorably received in San Antonio and El Paso and will soon be introduced into other major Texas markets.

The senior executive managing this program is Craig K. Calton, vice president-marketing, who joined us this year with 15 years experience as a merchant and strategic marketer with a major supermarket chain in California. He has brought needed marketing management depth to National Convenience Stores.

How does gasoline fit into your product strategy?

NCS began selling gasoline in the 1960s and has always promoted it on convenience and low price. Our gasoline is an unbranded product. There has been a historical price advantage between our outlets versus major oil companies who sell a branded product with expensive advertising support.

Seventy-six percent of our stores sell gasoline Over time that number will increase as we add new stores, virtually all of which will sell gasoline, and close older units, some of which do not sell gasoline.

Gasoline, in and of itself, is a very profitable business and it also builds traffic inside the store. Obviously we like it when gasoline customers make a purchase inside the store and research indicates about one-third of them do.

The Hex store's massive gasoline installation, often the biggest on the street, makes the important marketing statement that it has the capacity to sell a lot of gasoline. It not only places the store in the same league with the major oil companies, but puts pressure on conventional convenience stores with much smaller gasoline installations.

Once customers experience the Hex, whether to simply buy gasoline or to buy gasoline and something inside the store, they come back. It is the best convenience store shopping experience available in terms of the physical layout, the products and services offered, the quality of the people, the space, the lighting, and the customer and employee security. To the extent that our competitive price on gasoline brings people to that store and lets them experience that store, then it is to our long-term advantage.

How secure is your source of gasoline given the volatile political situation in the Middle East?

We believe it is as secure as anybody else's. Approximately 50% of our gasoline is bought under long-term contracts from established suppliers. Having been in this business since the 1960s, NCS has experienced almost every kind of market condition imaginable, from the shortages experienced in the 1973–1974 period to the surpluses of today.

Our vulnerability to a shortfall is no greater than that of the major oil companies because in a period of crisis, the government allocates supply of available product based on the volumes sold prior to the supply constriction.

NATIONAL CONVENIENCE STORES

EXCERPT FROM THE ANNUAL REPORT OF NATIONAL CONVENIENCE STORES, 6.30.87

What is the convenience store strategy of the major oil companies?

The large oil companies are continuing to build small units of 800 to 1,000 square feet designed to do a lot of gasoline volume, but limited inside to selling only the most traditional convenience store merchandise, including cigarettes, beer, soft drinks, candy and snacks. The Hex, on the other hand, matches the majors in site quality, has a competitive gasoline installation and has the advantage of the store itself—its size, its physical layout, its services and the variety of products inside the store. Most major oil company operations are not truly convenient because their product mix is so narrow and the physical size of the units is so small that there is little flexibility to broaden the mix.

▲ In addition to offering video rentals and ATMs, we recently installed bank debit card facilities in two-thirds of our stores which allow customers to withdraw cash from their bank accounts at sales counters. All of these services are an important part of being a full-service convenience store today.

Given these advantages, is NCS attracting a broader customer mix into its stores?

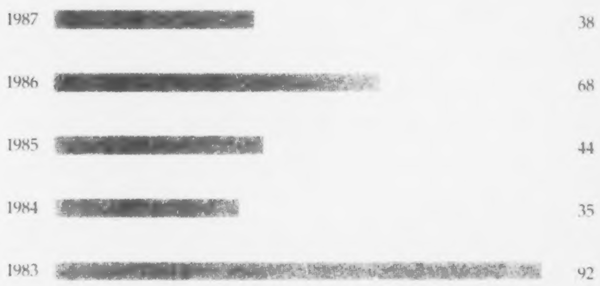
Yes. We are seeing significantly more female customers in the Hex stores than is typical in the industry. We are attracting more white-collar males while not alienating the traditional core blue-collar customer. Further, we are finding Hex outlets are not only perceived to be safer, but are, in fact, safer. The incidence of crime and customer or employee injuries in the Hex stores is dramatically less than rates experienced in conventional stores.

We are also attracting more people by offering video rentals and ATMs in our stores. Recently we installed bank debit card facilities in two-thirds of our stores which allow customers to get cash back at the sales counter. All of these services are an important part of being a full-service convenience store today.

Let's turn to the long-term strategy of the Company. Have the poor results of this year and the previous year forced you to alter your plans?

No, our strategy remains the same. We will continue to broaden our customer base, to improve our margins by selling more fast foods and nonfoods, and to build market share position. We will also close and sell marginal stores as well as units in markets where NCS has inadequate market share. In 1986, NCS sold 186 stores that were spread across nine nonstrategic markets in small concentrations. These stores generated volumes 25% below our corporate averages.

Store Closings



NCS also recently completed the sale of 40 stores in the Midland, Texas area. This market has been severely impacted by the downturn of the energy industry and is not expected to recover substantially for several years.

These transactions provide additional capital for investment in Hex stores, the keystone of our overall growth strategy. We are focused on providing the best in convenience retailing with a contemporary store base in high growth markets and on realizing economies of scale in overheads and expenses through a unique organizational structure.

Our recent performance has pushed the expansion time frame back somewhat. In better times, we planned to build 100 Hex stores in 1988 instead of the 30 now called for in our capital expenditure plan. Given the Texas economy, the disappointing results of last year, and the need to conserve our capital, we feel this reduction is prudent.

Future plans call for Texas to get a much smaller proportion of new unit growth with about 75 percent of new store growth taking place in southern California, Georgia, Florida and other high-growth markets.

We are not bashful about investing in our future, even though these are difficult times. We have continued to invest in our new store concept and in the conventional stores. Most of our older stores have been recently remodeled to enhance the shopping experience they provide and to extend their productive life.

Do you expect further deterioration in the Texas economy?

Recent independent economic studies suggest Texas has seen the worst of it and a more favorable economic climate is anticipated this year.

For example, Eppler, Guerin & Turner, Inc., a leading Dallas-based investment firm, in a report published in July 1987, stated, *"Because of its many attractive characteristics, including…its location in the Sun Belt, abundant natural resources, strong financial infrastructure, excellent highways, positive government policies and diversity, we think our state's economy will be among the most rapidly growing in the country."*

With respect to Houston, we believe that as time goes by, and specifically in 1988, we are going to be operating in a more favorable economic climate. It is not going to be a boomtown but we do see stability. We anticipate some increase in demand, while the number of convenience stores is certainly not expected to grow and may continue to contract. I think there will be a more favorable climate in Houston than we have seen during the last three or four years.

The other Texas markets also seem steadier, although Austin is not yet on the rebound and it is questionable whether the economy in the Dallas area has yet reached bottom.

With an estimated 60,000–70,000 convenience stores in the United States, some would say yours is becoming an over-stored or mature industry. How would you respond?

A few markets appear to be near saturation but you have to consider the nature of the stores in those markets. Many are to 15 to 20 years old and are just not the kind of store customers want, often located in the middle of the block, with tight parking, difficult ingress/egress, and small gasoline installations. Many of these units are obsolete and they will inevitably be closed.

Our Company has done more to eliminate obsolete stores than anyone else in the business. We have positioned ourselves for the future by developing a high quality store network that we believe will dramatically outperform the industry.

Also, one could argue that the only truly mature industry is one that has decreasing demand for its product. The end product of our industry is time savings. Basic demographic changes, including an increasing number of working women, are giving rise to increasing demand for time savings, and I feel that this trend will continue for a long time.

What are your long-term financial objectives?

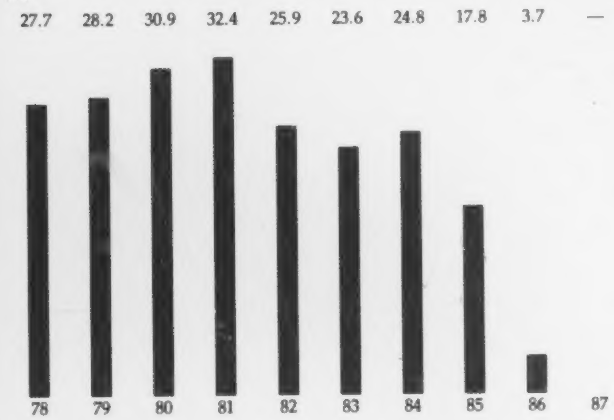
Our intention is to achieve the returns NCS reported from 1976 through 1985—returns on shareholders' equity averaging over 20%.

I recognize that the last two years have been trying and

NATIONAL CONVENIENCE STORES

EXCERPT FROM THE ANNUAL REPORT OF NATIONAL CONVENIENCE STORES, 6.30.87

Return on Beginning Stockholders' Equity
(%)



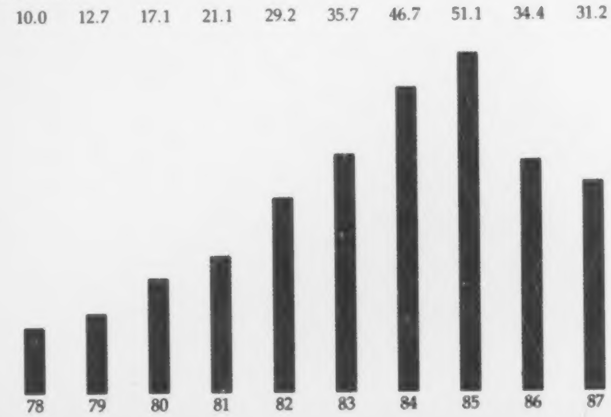
disappointing, but along the way important decisions were made that place NCS in a strong position relative to the competition and to the economy. We have significantly reduced our cost structure and, consequently, relatively small sales increases can lead to large improvements in the bottom line.

Although the timing cannot be fixed with certainty, I believe wholeheartedly that the Texas economy *will* recover and that NCS will benefit greatly from that recovery. Our markets outside of Texas remain strong. The coming of age of the Hex store group and the movement of this group from a loss position to profitability will also be a major positive factor in the years ahead.

How would you assess the Company's financial position?

The Company is very sound. Even at breakeven, NCS has a very strong annual cash flow in the $35–$40 million range.

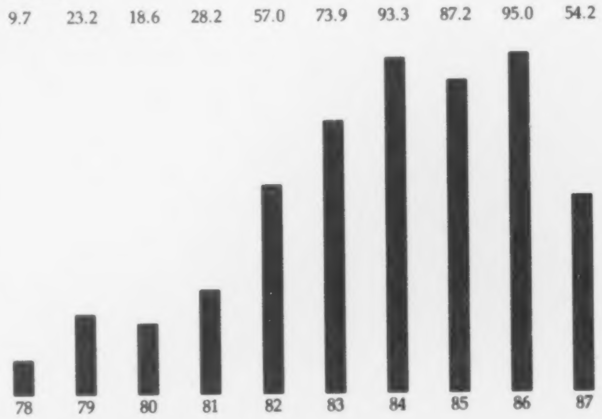
Cash Flow
($ millions)



The Company's balance sheet appears highly leveraged, but, unlike most convenience store companies, NCS owns a significant portion of its operating real estate. If NCS simply leased its real estate, the Company would be essentially debt-free. The combination of a strong cash flow and the ownership of significant real estate holdings give the Company reserves of financial strength.

However, given this last year's tough economic conditions and extraordinary competitive pressures, NCS had less cash flow than in 1986. Accordingly, the Company reduced its construction activity by building only 30 stores during the year instead of an originally planned 60 and cut total capital expenditures from $95 million in fiscal 1986 to $54 million in fiscal 1987.

Capital Expenditures
($ millions)



NCS has historically purchased far more properties than its competition. Have you considered leasing stores in order to reduce capital expenditures?

We have considered it. However, every time we do an analysis, we conclude ownership is the best real estate alternative. Other than some fairly cosmetic reasons, there is no real advantage to leasing real estate over owning it. In fact, to the contrary, we think the long-term advantages of owning real estate clearly tip the decision in that direction.

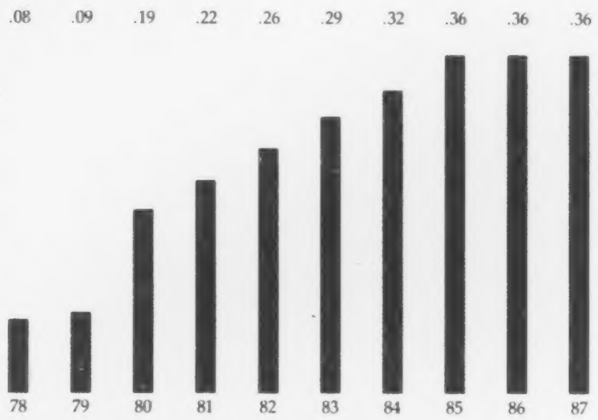
Granted, conditions in the financial markets have a direct bearing on this decision. Based on these factors, we may elect to use a sale-and-leaseback as a financing alternative. A deviation from our ownership policy will be the exception rather than the rule.

NATIONAL CONVENIENCE STORES

EXCERPT FROM THE ANNUAL REPORT OF NATIONAL CONVENIENCE STORES, 6.30.87

Would you please review the Company's dividend policy?

We have a consistent long-term policy of returning value to our shareholders. Declaring dividends this last year might look very agressive in light of the year's earnings performance, but the policy remains in place because NCS doesn't expect to repeat that poor performance.



Dividends Per Share

Is NCS continuing to buy back shares of its stock in the open market?

Our Board has authorized the repurchase of 2,000,000 shares; to date we have repurchased approximately 946,000 shares at an average cost under $9.00 per share.

Yet, every dollar spent to purchase stock is a dollar that we can't invest in the Company. We have a growth concept, the Hex, from which we expect extraordinary returns and we would like to pursue that concept as vigorously as possible. Nevertheless, at certain levels the trade-off becomes attractive in the other direction and we will buy stock rather than build stores.

Carl Lindner has purchased 15.8% of NCS common stock over the last two years. How do you view his involvement in the Company?

People new to NCS should understand that our Company has a long relationship with Carl Lindner and his company, American Financial Corporation, that stretches over almost ten years.

A number of years ago, American Financial and Carl Lindner owned 23% of NCS. They sold that position in a secondary offering in 1983 at a significant profit. About 18 months ago, after being out of the stock for a period of time, they began buying shares again and currently own about 16% of the outstanding shares. We take this as a compliment since Mr. Lindner holds shares in a number of convenience store operators and knows our industry quite well.

Over the years, Mr. Lindner has been a long-term investor who has been very supportive of the Company and we are pleased to have him as a major shareholder once again.

HISTORICAL SUMMARY: 7-ELEVEN JAPAN CO., LTD.

Data Taken from the Annual Report
for the Year Ended February 28, 1987

	10TH SURVEY	11TH SURVEY	12TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
					YEAR ENDED			
	2/29/80	2/28/81	2/28/82	2/28/83	2/29/84	2/28/85	2/28/86	2/28/87
SEVEN-ELEVEN JAPAN CO., LTD. **Tokyo, Japan Established 1973**								
Number of Stores	801	1,040	1,306	1,643	2,001	2,299	2,651	2,964
Store Growth in Year	210	239	266	337	358	298	352	313
Store Days	254,736	335,863	428,012	538,024	666,852	784,601	900,900	1,024,894
Sales per Day				$3,115*	$3,127*	$3,221*	$3,290*	$3,328
Sales Growth $DPD					$12*	$94*	$69	$38
Pretax Profits $DPD						$188.42	$210.11	$222.41
After Tax Profit $DPD						$77.22	$89.28	$94.84
Store Closures		—	—	21	18	17	14	—
Gasoline Units		—	—	—	—	—	—	—
Average Square Foot Per Store				978	985	985	992	995
Yearly Sales Per Square Foot						$1,194*	$1,211*	$1,220

BASIS FOR PROFIT PER DAY DETERMINATION (in U.S. Dollars)

Operated 2,964 7-Eleven stores in Japan on February 28, 1987, of which 2,736 are franchised. 228 are company operated.

The average 7-Eleven store in the United States had total store sales of $731,095 from 2,400 square feet or sales per square foot of $305 for the year. The average 7-Eleven store in Japan had total store sales of $1,214,720 from 995 square feet or sales per square foot of $1,220 for the year.

The average dollars of pretax profit per store day for 7-Eleven in the United States was $59.19. The average pretax profit per store per day for 7-Eleven Japan was $222.41.

7-Eleven Japan Co. paid Southland $16,013,000 as a royalty during the fiscal year. That was 47/100th of 1% of sales. It amounted to $15.62 per store per day for 7-Eleven Japan and $5.78 per store per day for each 7-Eleven store in the United States.

*These dollar figures for previous years have been adjusted to the 153 yen to the dollar rate.

SEVEN-ELEVEN JAPAN CO., LTD.

EXCERPT FROM THE ANNUAL REPORT OF SEVEN-ELEVEN JAPAN CO., LTD., 2.28.87

To Our Stockholders

Fiscal 1987 was another successful year for Seven-Eleven Japan, as every year has been since the commencement of business in fiscal 1975. Net sales this year were up 15.1% to ¥521,907 million (US$3,411.2 million). Net income rose by 20.8% up to ¥14,871 million (US$97.2 million). On a per share basis, net income grew by 19.8% to ¥121.7 (US$0.795). The number of 7-Eleven stores in Japan has risen to 2,964, representing an increase of 313 stores over last year. Major financial indicators of our profitability, and thus the strength of our management, were just as positive. Return on revenue rose to 15.4%. Return on total assets increased to 12.6%, as did return on stockholders' equity which reached 21.5%.

The Top Contender in a Competitive Industry

In the last few years, although the number of new entrants in the convenience store industry has slackened, the competition among the large chains has become increasingly intense. This competition has primarily involved both territorial expansion and increases in the number of stores operating within each chain. Despite this competitive situation, Seven-Eleven Japan ranks as the strongest convenience store chain in the country due to successful market-dominance strategies that have resulted in high customer loyalty. Our superior store management strategies which have served to distinguish us from other convenience stores, have resulted in the following advantages. Seven-Eleven's store information systems are more advanced than those of our competitors. Our merchandising strategies, supplemented by these advanced store information systems, have been enhanced, improving our competitive ranking within the industry. And, our distribution systems have become quicker and more efficient. In addition, funded by our capital raising capabilities, made possible because of our listing on the Tokyo Stock Exchange, we have been able to create a strong position within the industry built upon an extensive network of stores throughout Japan.

Seven-Eleven Japan Co., Ltd., achieved gains in both net income and net sales for the thirteenth consecutive year since 1975, its first year of business. Sales in our existing stores were high, increasing 3.8% from the year earlier. Based on extensive research conducted to determine the effect of store location on actual sales, we increased our total number of stores by 313 additional facilities in fiscal 1987. We are planning on continued growth in the future through increased utilization of our highly advanced store information system.

The Key to Profitability: Determining Optimal Site Locations

"Raising profitability" was the goal of each of our stores in fiscal 1987. In this challenging business environment, profitability is given primary emphasis in the development of our expansion policies.

This year we did extensive research to determine the effects of store location on actual sales levels. We randomly chose 700 of our stores and analyzed them with regard to 30 different factors related to demographic, geographic, and competitive characteristics. The data we obtained from our computers was used in determining optimal site locations for the new stores we opened in fiscal 1987. This expansion represents a deeper penetration into areas in Japan in which Seven-Eleven is currently operating.

Our Advanced Merchandising, Distribution, and Store Information Systems

Through the installation of various systems, such as POS (Point-of-Sales), EOB (Electronic Order Booking), and color graphic personal computers into each store, Seven-Eleven's basic store information system, the nation's first retail VAN (value-added network)

SEVEN-ELEVEN JAPAN CO., LTD.

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Toshifumi Suzuki
President and Representative Director

Masatoshi Ito
Chairman and Representative Director

linking stores with suppliers and headquarters, was completed. Data that is generated by our POS (point-of-sales) system makes it possible for us to meet the needs of customers and therefore to reduce lost sales opportunities. By fully utilizing the store information system, we are continuously able to improve efficiency and establish merchandising strategies.

Furthermore, as of April 1986, all our 7-Eleven stores were equipped with new cash registers that allow for interactive data communication between stores and suppliers. In June 1986, an uninterrupted power supply function was added to the system to prevent operational shutdowns in the case of a power failure.

This year we introduced several new products and services in response to consumer demands. Using the capabilities of the new cash registers, we began an advanced sales order program for our box-lunch service and gift-packaged fresh flowers. We also started to market Seven-Eleven telephone cards through vending machines linked with our cash registers.

We have increasingly placed more and more emphasis on the continuous search to find new high-demand items. In promoting the efficient distribution of these goods, many of which are small-lot items requiring frequent delivery, we continue to utilize our "combined delivery systems" that encourage the shared delivery of products from a combination of suppliers.

Seven-Eleven continues in its efforts to achieve a stronger market dominance with an emphasis on expansion based on profitability. In addition, we are striving to increase our existing store sales through the maximum utilization of store information systems and improved merchandising and distribution capabilities.

We greatly appreciate the continued support of our stockholders.

Masatoshi Ito
Masatoshi Ito
Chairman and Representative Director

Toshifumi Suzuki
Toshifumi Suzuki
President and Representative Director

STORES OWNED BY OTHER PUBLICLY-OWNED COMPANIES

For your information, we've also included some statistics from the annual reports of other publicly-owned companies that operate convenience stores. The annual reports of these corporations do not break out their store operations in sufficient detail to allow dollars per day analysis. These companies operated the following units:

COMPANY NAME	STORES OPERATED UNDER THESE NAMES	NUMBER OF STORES 11TH SURVEY	NUMBER OF STORES 12TH SURVEY	NUMBER OF STORES 13TH SURVEY	NUMBER OF STORES 14TH SURVEY	NUMBER OF STORES 15TH SURVEY	NUMBER OF STORES 17TH SURVEY
Kroger	Kwik Shop Quik Stop Markets Time Saver Stores Tom Thumb Food Stores Turkey Hill Minit Market Loaf 'N Jug (590 of these stores sell gasoline)	338	349	352	352	443	735
Marsh Supermarkets, Inc.	Village Pantry	123	131	140	142	154	170
Convenient Food Mart (Includes operations of 46 regional franchisers, more than 300 of these are operated by Dairy Mart whose operations are included in the Survey)		1004	1038	1078	1086	1134	1316
Uni-Marts, Inc.	Uni-Marts	—	—	92	122	144	208
ARCO	AM/PM	500	685	—	765	792	525
Southland	Quik Mart	330	350	351	351	291	163
Ashland Oil, Inc.	SuperAmerica	N/A	265	—	300	316	N/A
Sun Company	King Kwik Crown Central Zippy Mart	1202	1115	—	220	164	N/A

AGGREGATE ANNUAL PROFIT AND LOSS STATEMENT

1986 COMPARED TO 1987

	THIS YEAR	THIS YEAR PERCENT OF TOTAL	LAST YEAR	LAST YEAR PERCENT OF TOTAL
Total Store Sales	$9,022,455,284	100.00%	$8,088,326,539	100.00%
Cost of Goods Sold—Store	6,315,718,699	70.00%	5,661,828,500	70.00%
Store Gross Margin	2,706,736,585	30.00%	2,426,498,039	30.00%
Gasoline Margin	390,138,900		372,093,200	
Total Margin	3,096,875,485		2,798,591,239	
Expense	2,816,969,100		2,519,416,994	
Net Profit Before Income Tax	$ 279,906,385		$ 279,174,245	
Net Profit After Income Tax	$ 191,834,975		$ 193,414,909	

DAILY PROFIT AND LOSS STATEMENT OF THE AVERAGE STORE

1986 COMPARED TO 1987

	THIS YEAR	THIS YEAR PERCENT OF TOTAL	LAST YEAR	LAST YEAR PERCENT OF TOTAL
Store Sales	$1,568.00	100.00%	$1,586.00	100.00%
Cost of Goods Sold—Store	1,097.60	70.00%	1,110.20	70.00%
Store Gross Margin	470.40	30.00%	475.80	30.00%
Gasoline Margin	67.79		72.98	
Total Margin	538.19		548.78	
Expense	489.56		494.91	
Net Profit Before Income Tax	$ 48.63		$ 53.87	
Net Profit After Income Tax	$ 33.33		$ 37.32	

ANNUAL PROFIT AND LOSS STATEMENT OF THE AVERAGE STORE

FOR THE EIGHT CHAINS IN THE SURVEY IN 1986
AND THE EIGHT CHAINS IN THE SURVEY IN 1987

	THIS YEAR	THIS YEAR PERCENT OF TOTAL	LAST YEAR	LAST YEAR PERCENT OF TOTAL
Total Store Sales	$572,320	100.00%	$578,890	100.00%
Cost of Goods Sold—Store	400,624	70.00%	405,223	70.00%
Store Gross Margin	171,696	30.00%	173,667	30.00%
Gasoline Margin	24,743		26,637	
Total Margin	196,439		200,304	
Expense	178,690		180,641	
Net Profit Before Income Tax	$ 17,749		$ 19,663	
Net Profit After Income Tax	$ 12,165		$ 13,621	

1. Assuming gas margin of $67.79 per day per store for the 1987 Survey.
2. Assuming gas margin of $72.98 per store per day for all stores in the 1986 Survey.
Gas margin in the stores with gasoline would of course be higher than these averages.

PROFIT PER STORE PER DAY

The average profit (unadjusted for inflation) decreased 9.73% or $5.24 per store per day for the year. Four chains were up and three chains were down. Last year the Survey average was $53.87 per store per day in pretax profit and this year the average is $48.63 per store per day.

PRETAX DOLLARS OF PROFIT PER DAY

DOLLARS PER DAY PROFIT RANKING	COMPANY	NUMBER OF STORES	PRETAX PROFIT PER STORE PER DAY
1	Casey's	586	$ 83.17
*2	Circle K	3,507	75.18
3	Southland	7,672	59.19
4	Sunshine Jr.	330	41.57
*5	Munford	792	27.05
*6	Silcorp	1,053	12.51
7	Dairy Mart	1,207	-10.95
*8	National Convenience	950	-28.42
Total Stores In Survey		16,097	
Average Dollars Profit Per Day			$48.63

*FIFO Inventory Valuation For Store Inventories

PRETAX PROFIT GROWTH SCHEDULE

DOLLARS PER DAY PROFIT RANKING	COMPANY	PRETAX PROFIT PER STORE PER DAY GROWTH OVER LAST YEAR
1	Casey's	$24.78
2	Circle K	12.14
3	Southland	-4.80
4	Sunshine Jr.	8.85
5	Munford	3.90
6	Silcorp	—
7	Dairy Mart	-32.29
8	National Convenience	-38.72

TOTAL GROSS MARGIN SCHEDULE

PER STORE PER DAY

RANKING	COMPANY	TOTAL GROSS PROFIT DEVELOPED PER STORE PER DAY
1	Southland	$752
2	National Convenience	642
3	Circle K	510
4	Casey's	423
5	Munford	377*
6	Sunshine Jr.	314
7	Dairy Mart	311
8	Silcorp	307

*Estimate

MARGIN, OPERATING COST, PROFIT

ON A DOLLARS PER STORE PER DAY BASIS

RANKING	COMPANY	GROSS PROFIT DEVELOPED PER STORE PER DAY	COST TO OPERATE A STORE A DAY	PROFIT PER STORE PER DAY
1	Southland	$752	$693	$59
2	National Convenience	642	670	-28
3	Circle K	510	435	75
4	Casey's	423	340	83
5	Munford	377*	350*	27
6	Sunshine Jr.	314	272	42
7	Dairy Mart	311	322	-11
8	Silcorp	307	294	13

*Estimate

TOTAL OPERATING COST PER STORE PER DAY

RANKING	COMPANY	COST TO OPERATE A STORE A DAY
1	Southland	$693
2	National Convenience	670
3	Circle K	435
4	Munford	350*
5	Casey's	340
6	Dairy Mart	322
7	Silcorp	294
8	Sunshine Jr.	272

*Estimate

AVERAGE FIGURES FOR THE CHAINS IN THIS SURVEY

	1976 SEVENTH SURVEY	1978 EIGHTH SURVEY	1979 NINTH SURVEY	1980 TENTH SURVEY	1981 ELEVENTH SURVEY	1982 TWELFTH SURVEY	1983 THIRTEENTH SURVEY	1984 FOURTEENTH SURVEY	1985 FIFTEENTH SURVEY	1986 SIXTEENTH SURVEY	1987 SEVENTEENTH SURVEY
Average Sales Per Store Per Day	$723	$751	$859	$978	$1,086	$1,222	$1,310	$1,413	$1,509	$1,586	$1,568
Sales Growth (average day this year versus average day last year)	$ 65	28	108	119	112	136	88	103	96	77	-18
Total Sales Per Store Per Year	$263,895	274,115	313,535	356,970	396,390	446,030	478,150	515,745	550,785	578,890	572,320
Sales Per Store Per Week	$ 5,061	5,257	6,013	6,846	7,602	8,577	9,170	9,891	10,563	11,133	10,976
Total Pretax Profit on Sales Per Store Annually	$ 9,194	10,026	12,052	13,935	14,687	18,870	18,338	19,786	19,089	19,662	17,749
Total After Tax Profit Per Store Annually	$ 4,752	5,431	6,395	8,964	8,628	10,705	10,574	12,837	14,691	13,621	12,165
Pretax Profit Per Store Per Day	$ 25.19	27.47	33.02	38.18	40.24	51.70	50.24	54.21	52.30	53.87	48.63
After Tax Profit Per Store Per Day	1 13.02	14.88	17.52	24.56	23.63	29.33	28.97	35.17	40.25	37.32	33.33
Percentage of Profit Pretax on Store Sales	3.56%	3.65%	3.84%	3.90%	3.70%	4.23%	3.90%	3.90%	3.52%	3.45%	3.10%
Percentage of Profit after Tax on Store Sales	1.84%	1.98%	2.04%	2.51%	2.17%	2.40%	2.25%	2.52%	2.71%	2.39%	2.13%

STATUS OF SALES, MARGIN, EXPENSE, AND PROFIT

Note the following recap of these important areas. They have been broken down on a per store per day basis.

YEAR	SALES	COGS*	STORE MARGIN	GASOLINE* MARGIN	TOTAL MARGIN	EXPENSES	AVERAGE PRETAX PROFIT PER DAY	SALES GROWTH	EXPENSE GROWTH	PROFIT GROWTH
1971	$495	$356.40	$138.60	$10.00	$148.60	$134.15	$14.45	Base Yr.	Base Yr.	Base Yr.
1972	530	381.60	148.40	10.00	158.40	140.67	17.73	$ 35	$6.52	$3.28
1973	479	416.55	162.12	20.00	182.12	163.37	18.78	49	22.70	1.05
1974	486	421.92	164.08	20.00	184.08	164.24	19.84	7	.87	1.06
1975	636	473.76	178.05	25.00	203.05	181.89	21.16	50	17.65	1.32
1976	658	473.76	184.24	25.00	209.24	185.30	23.94	22	3.41	2.78
1977	723	520.56	202.44	25.00	227.44	202.25	25.19	65	16.95	1.25
1978	751	540.72	210.28	25.00	235.28	207.81	27.47	23	5.56	2.28
1979	859	618.48	240.52	24.18	264.70	231.68	33.02	108	23.87	5.55
1980	978	704.29	273.88	36.69	310.57	272.39	38.18	119	40.71	5.16
1981	1,086	781.92	304.08	34.67	338.75	298.51	40.24	112	26.12	2.06
1982	1,222	879.84	342.16	38.10	380.26	328.56	51.70	136	30.05	11.46
1983	1,310	943.20	366.80	30.19	396.99	346.75	50.24	88	18.19	-1.46
1984	1,413	989.10	423.90	40.98	464.88	410.67	54.21	103	63.92	3.97
1985	1,509	1,056.30	452.70	57.33	510.03	457.73	52.30	96	47.06	-1.91
1986	1,586	1,110.20	475.80	72.98	548.78	494.91	53.87	77	37.18	1.57
1987	1,568	1,097.60	470.40	67.79	538.19	489.56	48.63	-18	-5.35	-5.24
Change Since 1971:	$1,073	$741.20	$331.80	$57.79	$389.59	$355.41	$34.18	$1.073	$355.41	$34.18

*Assuming a 72% Cost of Goods Sold on store merchandise for the years 1971 through 1983. Beginning in 1984 we used a 70% Cost of Goods Sold.

**Gas Margin: An arbitrary gasoline Margin Dollars Per Day was used between 1971 and 1978. Beginning in 1979, the daily gas margin per day per gasoline dispensing unit of National Convenience Stores was used. This figure was multiplied by the percentage of stores with gasoline units in the Survey for the year to arrive at this daily gasoline margin figure (NCS gasoline margin of $125.07 per gasoline unit per day times 54.2% (the percentage of stores in the Survey with gasoline) makes margin of $67.79 per store per day for the 16,097 stores in the Survey).

SALES GROWTH IN CONSTANT DOLLARS

Sales growth in constant dollars is an important indicator of past and future performance of retailing companies. We have computed the effect of inflation on sales dollars using the consumer price index as the multiplier. Our figures show wide variations in sales growth by store between the chains in this Survey.

In 1971, the average store sold $495 in merchandise each day. Sixteen years later, the average store sold $1,568 in inflated dollars. When $1,568 is adjusted for inflation since 1971, average store sales in 1986 were $561 in 1971 dollars. Constant dollar sales increased 13% per store per day in the sixteen year period. Average store sales decreased by $16 this year in current dollars. Based on the 17th Survey, average store sales needed to increase $23 to keep pace with inflation.

In 1971, most stores operated sixteen hours per day. In 1986, most operated 24 hours per day. By increasing their operating hours by half again, most of the chains in the Survey have not managed to keep up with their 1971 sales in constant dollars.

SALES COMPARISON

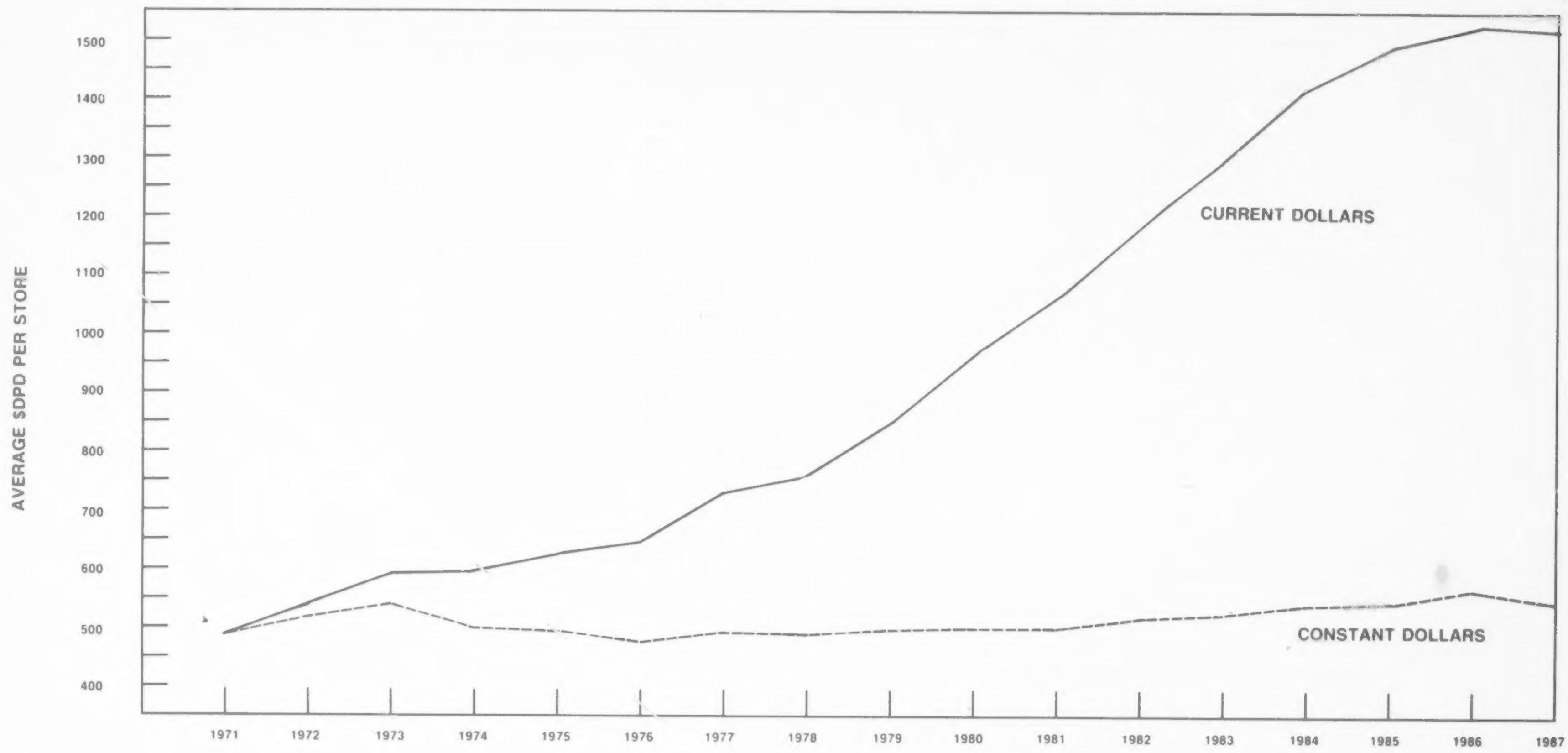
CURRENT DOLLAR SALES VERSUS CONSTANT DOLLAR SALES FOR THE EIGHT CHAINS IN THE SURVEY

DOLLARS PER DAY PROFIT RANKING	COMPANY	1971 $DPD AVERAGE DAILY SALES	1987 $DPD AVERAGE DAILY SALES	SALES GROWTH FOR 16 YR. PERIOD IN CURRENT DOLLARS	PERCENT SALES INCREASE IN CURRENT DOLLARS	1987 AVERAGE DAILY SALES IN CONSTANT DOLLARS	SALES GROWTH FOR 16 YR. PERIOD IN CONSTANT DOLLARS	PERCENT SALES GROWTH IN CONSTANT DOLLARS
1	Casey's	$ 707*	$ 926	$ 219	31%*	$724	$ 17	2%
2	Circle K	535	1,241	706	132%	444	-91	-17%
3	Southland	564	2,003	1,439	255%	717	153	27%
4	Sunshine Jr.	370	661	291	79%	237	-133	-36%
5	Munford	307	962	655	21%	344	37	12%
6	Silcorp	1,041**	1,041	—	—	—	—	—
7	Dairy Mart	1,045*	1,148	103	10%*	898	-147	-14%
8	National Convenience	418	1,478	1,060	254%	528	110	26%
TOTAL		$ 495†	$1,568	$ 1,073	217%	$561	$ 66	13%

** Base Year 1986
* Base Year 1981
† 1971 Average for the chains in the Survey at that time

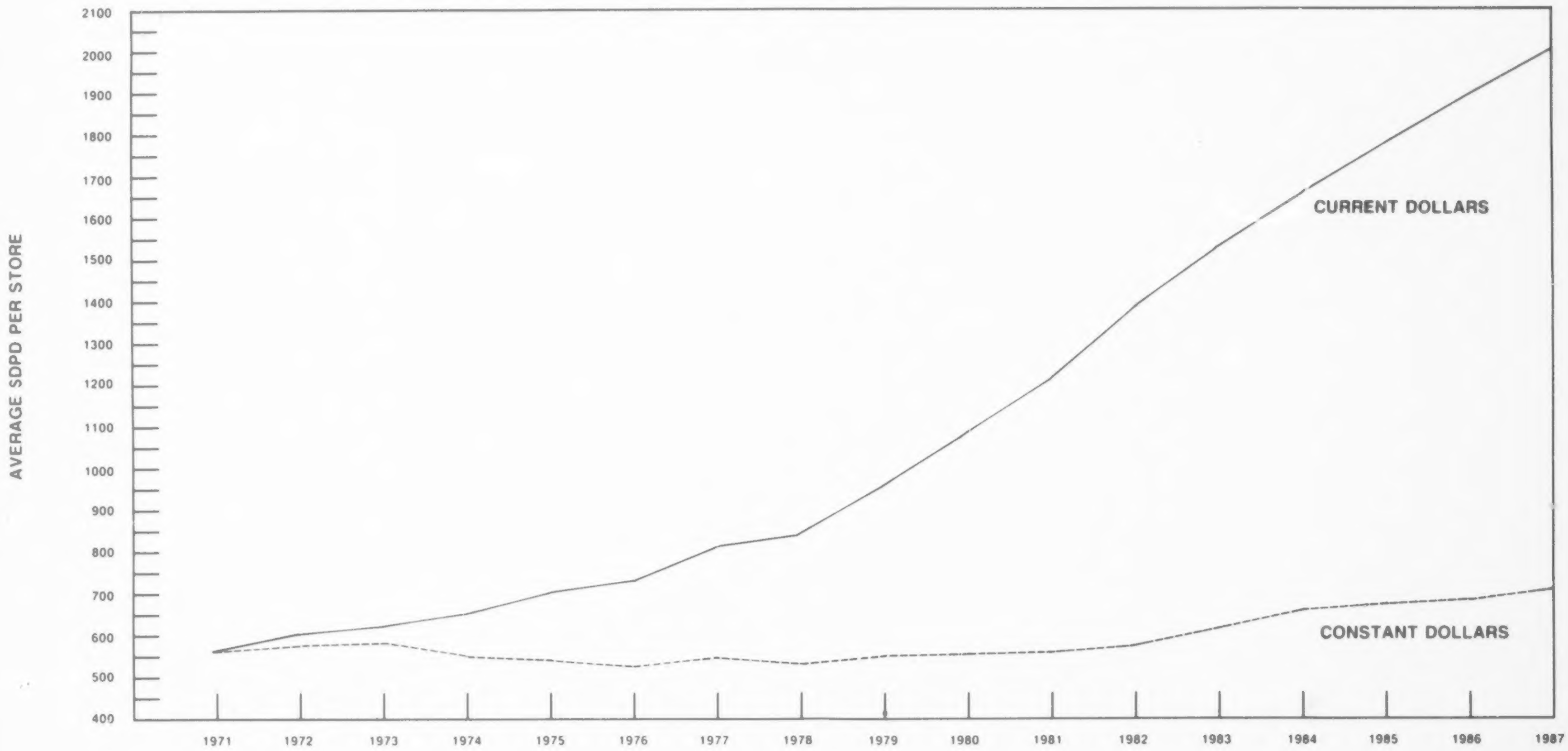
1987 CPI is 279.4% of 1971 CPI
1987 CPI is 127.9% of 1981 CPI

SALES COMPARISON
CURRENT VERSUS CONSTANT DOLLAR SALES FOR THE SMALL FOOD INDUSTRY



	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Sales Reported in SDPD Survey	$495	$530	$579	$586	$636	$658	$723	$751	$859	$978	$1086	$1222	$1310	$1413	$1509	$1586	$1568
Constant Dollars Adjusted for Inflation	$495	$513	$541	$500	$485	$471	$492	$478	$500	$500	$497	$516	$532	$563	$569	$576	$561
Real Sales Growth from Base Year Sales		+ $18	+ $46	+ $5	$10	$24	$3	$17	+ $5	+ $5	+ $2	+ $21	+ $36	+ $68	+ $74	+ $81	+ $66
CPI-Urban Consumers 1967 = 100	119.2	123.2	127.7	139.7	156.1	166.7	175.3	187.2	204.7	233.2	260.5	282.5	293.1	299.1	316.1	328.4	333.1

SALES COMPARISON
CURRENT VERSUS CONSTANT DOLLAR SALES FOR SOUTHLAND



	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Average $DPD Sales in Current Dollars	$564	$598	$624	$653	$708	$731	$813	$841	$950	$1078	$1219	$1394	$1532	$1656	$1773	$1893	$2003
Constant Dollar Sales Adjusted for Inflation	$564	$578	$583	$557	$540	$523	$553	$535	$553	$556	$558	$588	$623	$660	$669	$687	$717
Real Sales Growth from from Base Year Sales		+$14	+$19	-$7	-$24	-$41	-$11	-$28	+$11	-$8	-$6	+$24	+$59	+$96	+$105	+$123	+$153
CPI-Urban Consumers 1967 100	119.2	123.2	127.7	139.7	156.1	166.7	175.3	187.2	204.7	233.2	260.5	282.5	293.1	299.1	316.1	328.4	333.1

STORE SALES VERSUS THE CONSUMER PRICE INDEX

YEAR	JANUARY 1 CONSUMER PRICE INDEX	AVERAGE DAILY SALES $DPD SURVEY	AVERAGE DAILY SALES NEEDED TO KEEP PACE WITH CPI*	AVERAGE ANNUAL SALES $DPD SURVEY	AVERAGE ANNUAL SALES NEEDED TO KEEP PACE	DEVIATION FROM INFLATION PRICE
1971	119.2	$ 495		$180,675	$ 0	$ 0
1972	123.2	530	$ 512	193,450	186,817	6,633
1973	127.7	579	530	211,335	193,502	17,833
1974	139.7	586	580	213,890	211,750	2,139
1975	156.1	636	658	232,140	236,684	-4,544
1976	166.7	658	692	240,828	252,583	-11,755
1977	175.3	723	728	263,895	265,772	-1,877
1978	187.2	751	777	274,115	283,659	-9,544
1979	204.7	859	850	313,535	310,218	3,317
1980	233.2	978	968	356,970	353,400	3,570
1981	260.5	1,086	1,082	396,390	394,930	1,460
1982	282.5	1,222	1,173	446,030	438,199	17,831
1983	293.1	1,310	1,217	478,150	444,205	33,945
1984	299.1	1,413	1,242	515,745	453,330	62,415
1985	316.1	1,509	1,312	550,785	479,113	71,672
1986	328.4	1,586	1,363	578,890	497,759	81,131
1987	333.1	1,568	1,383	572,320	504,805	67,515

*Based on first Survey

SALES GROWTH RANKING

IN CONSTANT DOLLARS OVER THEIR BASE YEAR

CONSTANT DOLLAR SALES GROWTH RANKING	COMPANY	SALES GROWTH OR LOSS IN CONSTANT DOLLARS	SALES GROWTH OR LOSS OVER BASE YEAR
1	Southland	153	27%
2	National Convenience	110	26%
3	Munford	37	12%
4	Casey's	-17	2%
5	Dairy Mart	-147	-14%
6	Circle K	-91	-17%
7	Sunshine Jr.	-133	-36%
	Totals	$ 66	13%

AVERAGE SALES PER STORE PER DAY RANKING AND THIS YEAR'S SALES GROWTH VERSUS INFLATION

AVERAGE SALES PER DAY RANKING	COMPANY	SALES PER STORE PER DAY	SALES GROWTH PER STORE PER DAY THIS YEAR	SALES INCREASE THIS YEAR OVER LAST YEAR	SALES NEEDED TO KEEP PACE WITH CPI	SALES INCREASE OR DECREASE IN CONSTANT DOLLARS
1	Southland	$2,003	$ 140	7%	$1,920	$83
2	National Convenience	1,478	81	6%	1,417	61
3	Circle K	1,241	20	2%	1,238	3
4	Dairy Mart	1,148*	1*	—	1,164	-16
5	Silcorp	1,041	63	6%	997	44
6	Munford	962	-48	-5%	1,024	-62
7	Casey's	926	75	9%	863	63
8	Sunshine Jr.	661	13	2%	657	4
	Averages	$1,568				

All sales are for food stores sales only. Gasoline has been excluded, so sales are comparable among companies. To adjust to 1986 dollars, the CPI for January, 1987 was divided by the CPI for January, 1986 (333.1 divided by 328.4 equals 1.0143).

CURRENT VERSUS CONSTANT DOLLAR SALES FOR SOUTHLAND

The 1971 10K for Southland states that most stores operated from 7 a.m. to 11 p.m. The 1987 10K states the vast majority of 7-Eleven stores operated 24 hours a day. 7-Eleven's sales increased from $564 per store per day in 1971 to $717 in 1986 (in constant 1971 dollars). This is an increase of $153 or 27%. If night sales are less than 27% of total sales, 7-Eleven has a real increase in average store sales. If night sales are more than 27% of total sales, 7-Eleven has had a decrease in average store sales.

PROFIT GOAL

In our first Survey in 1971, we established a profit goal for the industry of $30 per store per day. We felt $30 was a reasonable return on the amount of capital invested at that time in the average store of that time. Our $30 figure was based, however, on the value of money in 1971. Because of inflation, it takes $83.82 per store per day to equal $30.00 in 1971 dollars. This year, Casey's averaged $83.17 per store per day in pretax profit. This amounted to $29.76 in constant 1971 dollars, and just about meets our original profit goal.

Inflation And Profit Goals

In this report, we have used the Consumer Price Index for all urban consumers (1967 = 100) as supplied by the U.S. Department of Labor. We have used the January dollars. Divide the CPI for January 1987 by the CPI for January 1971; 333.1 divided by 119.2 equals 2.794; then divide the current figure by 2.794 to arrive at the constant dollar figure. In the Survey, pretax profits have increased from an average of $14.45 per store per day in 1971 to an average of $48.63 in 1987. If the $48.63 pretax profit is adjusted for inflation ($48.63 divided by 2.794), you arrive at a constant dollar pretax figure of $17.40 (in 1971 dollars). Thus, in 1971 dollars, profits have risen $2.95 per store per day, or 20%. This is quite an improvement, but still only 59% of our original profit goal for average invested capital in 1971. To follow the increase of sales versus inflation, check the other sales schedules that appear in this report.

PROFIT VERSUS CONSUMER PRICE INDEX

YEAR	JANUARY 1 CPI	AVERAGE PROFIT PER DAY	AVERAGE PROFIT PER DAY NEEDED TO KEEP PACE WITH CPI (CURRENT DOLLARS)	PROFIT GOAL OF $30.00 PER DAY IN CURRENT DOLLARS
1971	119.2	$14.45		$30.00*
1972	123.2	17.73	$14.94	31.02
1973	127.7	18.78	15.47	32.13
1974	139.7	19.84	16.93	35.16
1975	156.1	21.16	18.92	39.30
1976	166.7	23.94	20.00	41.94
1977	175.3	25.19	21.25	44.13
1978	187.2	27.47	22.69	47.10
1979	204.7	33.02	24.51	51.51
1980	233.2	38.18	28.26	58.68
1981	260.5	40.24	31.57	65.55
1982	282.5	51.70	34.24	71.10
1983	293.1	50.24	35.53	73.76
1984	299.1	54.21	36.28	75.29
1985	316.1	52.30	38.31	79.55
1986	328.4	53.87	39.80	82.65
1987	333.1	48.63	40.37	83.82

*Based on First Survey

PERTINENT INFORMATION ON STORE OPENINGS AND CLOSINGS IN THE LAST TWELVE YEARS

FISCAL YEARS ENDED DECEMBER 31, 1974 AND THEREAFTER

	CIRCLE K	NATIONAL CONVENIENCE STORES	SOUTHLAND	SILCORP[3]	SUNSHINE JR.	MUNFORD	CASEY'S[1] GENERAL STORES	DAIRY MART[2]	TOTALS
Number of Stores in Fifth Survey	947	801	4,801	—	215	1,348	226	73	8,411
Store Closed Since 1974	472	841	3,508	58	137	901	7	146	6,070
Closure Rate	50%	105%	73%	—	64%	67%	3%	200%	72%
Stores Opened or Acquired Since Fifth Survey	3,032	990	6,379	128	252	345	367	1,280	—
Stores in Operation in Seventeenth Survey	3,507	950	7,672	1,053	330	792	586	1,207	16,097
Net Store Growth	2,560	149	4,164	—	115	-556	360	1,061	—
Growth on Base Year	270%	19%	87%	—	53%	-41%	159%	1,453%	—

1. Casey's figures since 4/30/79.
2. Dairy Mart figures since 1/31/7[illegible].
3. Silcorp figures since 1986.

Obviously some openings and closings have gone unrecorded. The above is our best estimate of total openings and closings.

STORE CLOSINGS DURING THE YEAR

DOLLARS PER DAY PROFIT RANKING	COMPANY	STORES CLOSED OR SOLD	PERCENT OF STORES OPERATED AT YEAR'S END
1	Casey's	5	1%
2	Circle K	149	4%
3	Southland	286	4%
4	Sunshine Jr.	27	8%
5	Munford	not given	—
6	Silcorp	58	6%
7	Dairy Mart	45	4%
8	National Convenience	38	4%
	Total	608	4%

These eight chains operated a total of 16,097 stores at the close of their last fiscal year.

1974 Fourth Annual Survey showed 172 store closings; net store growth of 1,042 stores.
1975 Fifth Annual Survey showed 244 store closings; net store growth of 928 stores.
1976 Sixth Annual Survey showed 315 store closings; net store growth of 672 stores.
1977 Seventh Annual Survey showed 464 store closings; net store growth of 360 stores.
1978 Eighth Annual Survey showed 399 store closings; net store growth of 644 stores.
1979 Ninth Annual Survey showed 755 store closings; net store growth of 323 stores.
1980 Tenth Annual Survey showed 789 store closings; net store growth of 247 stores.
1981 Eleventh Annual Survey showed 426 store closings; net store growth of 205 stores.
1982 Twelfth Annual Survey showed 595 store closings; net store growth of 107 stores.
1983 Thirteenth Annual Survey showed 463 store closings; net store growth of 266 stores.
1984 Fourteenth Annual Survey showed 559 store closings; net store growth of 1,197 stores.
1985 Fifteenth Annual Survey showed 351 store closings; net store growth 700 stores.
1986 Sixteenth Annual Survey showed 798 store closings; net store growth of 1,356 stores.
1987 Seventeenth Annual Survey shows 608 store closings; net store growth for the Surveyed chains is 608 stores.

In total, the Survey has recorded 6,938 store closings in the past fourteen years.

STORE GROWTH SCHEDULE FOR THE YEAR

DOLLARS PER DAY PROFIT RANKING	COMPANY	STORES PURCHASED	STORES OPENED	STORES CLOSED OR SOLD	NET STORE GROWTH
1	Casey's	—	57	5	39
2	Circle K	123	161	149	135
3	Southland	None	439	286	153
4	Sunshine Jr.	6	11	27	-10
5	Munford	not given	not given	not given	-45
6	Silcorp	78	50	58	70
7	Dairy Mart	289	30	45	274
8	National Convenience	—	30	38	-8
	Total	496	778	-608	608

STORE CLOSINGS BY COMPANY FOR THE LAST THIRTEEN YEARS

FISCAL YEARS ENDING DECEMBER 31, 1974 AND THEREAFTER

		SUNSHINE JR.	SOUTHLAND	CIRCLE K	SILCORP	MUNFORD	NATIONAL CONVENIENCE	DAIRY MART	CASEY'S GENERAL STORES
1975	5th	—	142	12	—	—	71	—	—
1976	6th	—	158	24	—	—	79	—	—
1977	7th	3	154	24	—	112	38	—	—
1978	8th	6	254	12	—	N/A	18	—	—
1979	9th	9	308	24	—	273	29	None	—
1980	10th	8	460	22	—	119	28	2	—
1981	11th	11	281	28	—	N/A	42	2	—
1982	12th	16	267	8	—	155	73	23	1
1983	13th	17	271	10	—	N/A	92	11	1
1984	14th	17	364	31	—	43	35	10	0
1985	15th	16	224	33	—	not given	44	7	0
1986	16th	7	339	95	—	24	254	46	0
1987	17th	27	286	149	58	not given	38	45	5
Totals		137	3,508	472	58	726*	841	146	7

*The Munford 10K states they closed 310 stores between 1982 and 1986. In January 1976 they had 1,409 stores. At various times we have counted over 900 store closings for Munford.

NEW STORES PLANNED

DOLLARS PER DAY PROFIT RANKING	COMPANY	STORES PLANNED THIS YEAR AS STATED IN THIS YEAR'S ANNUAL REPORT	ACTUAL NET NEW STORES OPENED OR ACQUIRED	STORES PLANNED AS STATED IN LAST YEAR'S ANNUAL REPORT
1	Casey's	130 stores in 2 years	39	60 planned
2	Circle K	240 in development & acquisitions	135	180 in development
3	Southland	189 under construction at year end	153	Didn't state
4	Sunshine Jr.	Sites selected	-10	25
5	Munford	50 stores planned	-45	40 new stores
6	Silcorp	40 new stores & acquisitions	70	40 new stores
7	Dairy Mart	Intends to open new stores	274	20 new stores & acquisitions
8	National Convenience	Build 30 HEX stores	-8	130 new stores
Totals		614	608	495

STORES OWNED VERSUS LEASED
AS NOTED IN THE ANNUAL REPORTS AND 10K'S

DOLLARS PER DAY PROFIT RANKING	COMPANY	STORES IN OPERATION	STORES WITH REAL ESTATE OWNED	INCREASE OR DECREASE FROM LAST YEAR IN STORES OWNED	STORES LEASED
1	Casey's	586	259	60	327
2	Circle K	3,507	151	-57	3,356
3	Southland	7,672	2,043	146	5,629*
4	Sunshine Jr.	330	101	17	229
5	Munford	792	33	-2	759
6	Silcorp	1,053	N/A	N/A	N/A
7	Dairy Mart	1,207	98	7	1,109
8	National Convenience	950	285	-2	665
	Total	16,097	2,970	169	12,074

*Southland leases 1,254 stores from the Southland Employees Trust.

INDUSTRY LEADERS IN EIGHT PUBLICLY OWNED COMPANIES

BASED ON INFORMATION FROM PROXY STATEMENTS

QUALIFICATION AS AN INDUSTRY LEADER BASED ON POSITION, SALARY, OR STOCK OWNERSHIP

DOLLARS PER DAY PROFIT RANKING	COMPANY	NAME	AGE	POSITION	SALARY	DIFFERENCE FROM LAST YEAR	PERCENT OF OWNERSHIP	CASH DIVIDENDS ON STOCK OWNERSHIP
1	Casey's	Donald Flamberti	49	President	$450,000	$ -4,521	22%	None
2	Circle K	Karl Eller	59	Chairman & CEO	430,884	-8,782	6%	$ 804,524
3	Southland	John P. Thompson	61	Chairman	857,612	-96,565	10%	5,642,168
		Jere W. Thompson	55	President & CEO	794,668	-195,112	7%	3,578,662
4	Sunshine Jr.	Leona Lewis	78	Chairman	—	—	54%	444,926
5	Munford	Dillard Munford	68	Chairman & CEO	336,404	5,356	6%	114,710
6	Silcorp	Eric Findley	—	Chairman & CEO	—	—	Substantial	—
7	Dairy Mart	Charles Nirenberg	63	Chairman, President	219,798	32,055	28%	None
8	National Convenience	V.H. Van Horn	49	President & CEO	339,651	-49,787	2%	176,026

SALARY SCHEDULE OF TWO HIGHEST PAID EXECUTIVES AND OF THE BOARD OF DIRECTORS

DOLLARS PER DAY PROFIT RANKING	COMPANY	HIGHEST PAID EXECUTIVE	$DPD COST PER STORE	SECOND HIGHEST PAID EXECUTIVE	$DPD COST PER STORE	OFFICERS & DIRECTORS AS A GROUP	$DPD COST PER STORE	NUMBER INCLUDED AS OFFICERS & DIRECTORS
1	Casey's	$ 450,000	$2.20	$ 450,000	$2.20	$ 1,360,000	$ 6.65	5
2	Circle K	430,884	.34	208,850	.17	3,032,648	2.42	23
3	Southland	857,612	.15	794,668	.14	8,203,373	1.45	32
4	Sunshine Jr.	169,342	1.39	91,902	.54	528,208	4.33	7
5	Munford	336,404	1.13	241,636	.81	1,218,005	4.08	9
6	Silcorp	N/A	—	N/A	—	N/A	—	—
7	Dairy Mart	219,798	.59	139,870	.38	771,178	2.08	11
8	National Convenience	339,651	.98	192,000	.55	2,000,487	5.74	13
	Totals	$2,803,691	$ .52	$2,118,926	$ .39	$17,113,899	$ 3.18	100
	Average this year	$ 400,527	$ .75	$ 302,703	$ .56	$ 2,444,842	$ 4.55	
	Average last year	$ 386,322	$ .60	$ 308,883	$ .48	$ 2,079,822	$ 3.19	
	Average change from last year	$ 14,205	$ .15	$ -6,180	$ .08	$ 365,020	$ 1.36	

ANALYSIS OF STOCK HOLDINGS BY STOCKHOLDERS AND DIRECTORS

AS STATED IN THE COMPANY'S PROXY STATEMENT

DOLLARS PER DAY PROFIT RANKING	COMPANY	APPROXIMATE NUMBER OF SHAREHOLDERS	STOCK OUTSTANDING RECORD DATE	NUMBER OF SHARES HELD BY LARGEST STOCKHOLDER IN PROXY	PERCENT OF OWNERSHIP	NUMBER OF SHARES HELD BY SECOND LARGEST STOCKHOLDER IN PROXY	PERCENT OF OWNERSHIP	NUMBER OF SHARES HELD BY DIRECTORS AS A GROUP	PERCENT OF OWNERSHIP BY OFFICERS & DIRECTORS AS A GROUP
1	Casey's	1,752	11,787,010	2,563,879	22%	2,281,700	19%	5,918,776	50%
2	Circle K	5,600	49,744,341	6,784,092	14%	6,586,357*	13%*	16,330,308	33%
3	Southland	8,336	48,413,335	5,037,650	10%	3,289,851	7%	7,145,707	15%
4	Sunshine Jr.	N/A	1,701,650	926,931	54%	352,100*	21%*	949,397	56%
5	Munford	3,281	3,835,370	412,487	10%	377,000	10%	423,250	11%
6	Silcorp	1,731	—	—	—	—	—	—	—
7	Dairy Mart	2,000	Class A 2,202,064	Class A 400	—	Class A 200	—	Class A 800	.04%
			Class B 2,449,500	Class B 747,394	31%	Class B 747,394	31%	Class B 1,635,910	65%
8	National Convenience	1,825	22,414,074	3,752,119	17%	3,545,200*	16%*	2,114,669	9%

*American Financial

STOCK VALUATION SCHEDULE

DOLLARS PER DAY PROFIT RANKING	COMPANY	BOOK VALUE END OF YEAR COVERED IN REPORT	STOCK OUTSTANDING AS OF RECORD DATE	WHERE LISTED	STOCK PRICE CLOSE 10/19/87	MARKET VALUE OF STOCK 10/19/87
1	Casey's	$ 56,883,009	11,787,010	NASDAQ	13⅞	$ 163,485,690
2	Circle K	310,013,000	49,744,341	NY	10¼	509,879,490
3	Southland	1,667,831,000	48,413,335	NY	59½	2,880,573,000
4	Sunshine Jr.	23,043,169	1,701,650	AMEX	19¾	33,607,587
5	Munford	52,788,000	3,835,370	NY	19⅞	76,207,411
6	Silcorp	45,129,000	—	—	—	—
7	Dairy Mart	26,724,000	Class A 2,202,064	NASDAQ	Class A 8	17,616,512
			Class B 2,449,500		Class B 9	22,045,500
8	National Convenience	73,511,000	22,414,074	NY	7⅞	176,510,250

RETURN ON AVERAGE SHAREHOLDER'S EQUITY

DOLLARS PER DAY PROFIT RANKING	COMPANY	RETURN ON SHAREHOLDER'S EQUITY 1985	RETURN ON SHAREHOLDER'S EQUITY 1986	PERCENTAGE INCREASE OR DECREASE
1	Casey's	17.9%	16.5%	-8%
2	Circle K	24.8%	19.4%	-22%
3	Southland	16.1%	13.0%	-24%
4	Sunshine Jr.	12.4%	13.1%	6%
5	Munford	10.0%	3.1%	-69%
6	Silcorp	5.4%	5.2%	-4%
7	Dairy Mart	12.2%	13.1%	7%
8	National Convenience	3.9%	—	—

EARNINGS AND CASH DIVIDENDS PAID PER SHARE DURING YEAR

DOLLARS PER DAY PROFIT RANKING	COMPANY	DIVIDENDS PAID COMMON STOCK	EARNINGS	DIVIDENDS TO EARNINGS RATIO
1	Casey's	None	$ .73	—
2	Circle K	.28	.93	30%
3	Southland	1.12	3.96	28%
4	Sunshine Jr.	.48	1.70	28%
5	Munford	.54	.42	129%
6	Silcorp	.30	.83	36%
7	Dairy Mart	None	(.77)	—
8	National Convenience	.36	(.24)	—

COMMON STOCK PRICE RANGE AS SHOWN IN ANNUAL REPORT

DOLLARS PER DAY PROFIT RANKING	COMPANY	HIGH	LOW	CLOSING STOCK PRICE 10/19/87
1	Casey's	19⅝	11½	13⅞
2	Circle K	18⅝	13¼	10¼
3	Southland	60½	40⅜	59½
4	Sunshine Jr.	28⅜	20	19¾
5	Munford	24⅝	16⅝	19⅞
6	Silcorp—Class A	18½	12½	N/A
7	Dairy Mart—Class A	15	8½	8
8	National Convenience	11⅛	8⅛	7⅞

*10/19/87 is after the close of the Fiscal Year for all the companies. It was also the day the stock market dropped 508 points.

INVENTORY ACCOUNTING METHOD USED

DOLLARS PER DAY PROFIT RANKING	COMPANY	LIFO	FIFO
1	Casey's	X	
2	Circle K		X
3	Southland	X	
4	Sunshine Jr.	X	
5	Munford		X
6	Silcorp		X
7	Dairy Mart	X*	
8	National Convenience		X

*Some of Dairy Mart Inventories at FIFO

ADDRESSES, TELEPHONE NUMBERS, AND DATE OF RECEIPT OF ANNUAL REPORT OF THE COMPANIES IN THE DOLLARS PER DAY SURVEY

1. The Southland Corp.
2828 North Haskell Avenue
Dallas, Texas 75221
214-828-7011
Year Ended 12/31/86

2. The Circle K Corporation
1601 North 7th Street
Phoenix, Arizona 85072-2084
602-253-9600
Year Ended 4/30/87
Annual Report Received 8/12/87

3. Casey's General Stores, Inc.
1299 N.E. Broadway Avenue
Des Moines, Iowa 50313
515-263-3700
Year Ended 4/30/87
Annual Report Received 8/17/87

4. Sunshine Jr. Stores, Inc.
17th & June Avenue
P.O. Box 2498
Panama City, Florida 32402
904-769-1661
Annual Report Received 3/6/87

5. Silcorp Limited
6205 Airport Road
Mississauga, Ontario, Canada L4V 1E1
Year Ended 12/28/86
Annual Report Received 3/24/87

6. Munford, Inc.
1860 Peachtree Road, N.W.
Atlanta, Georgia 30309
404-352-6641
Year Ended 1/1/87
Annual Report Received 3/30/87

7. Dairy Mart
240 South Road
Enfield, Connecticut 06082
203-745-3611
Year Ended 1/31/87
Annual Report Received 5/18/87

8. National Convenience Stores
100 Waugh Drive
Houston, Texas 77007
713-863-2200
Year Ended 6/30/87
Annual Report Received 9/23/87

Year Covered:

This report covers the latest fiscal year reported by each of the chains. Years included in the Survey range from Sunshine Jr.'s fiscal years ending December 26, 1986, to National Convenience Stores' fiscal year, which ended June 30, 1987. The annual reports for the years were received by the stockholders, beginning with Sunshine Jr.'s and ending with National Convenience's report which was received on September 23, 1987. This schedule shows the date each company's fiscal year ended, as well as the date the reports were received by the stockholders.

THE EFFECT OF SOUTHLAND ON THE SURVEY
PROFIT COMPARISON: SOUTHLAND VERSUS THE SEVEN OTHER COMPANIES

Southland operates 48% of the stores included in the Survey. They make 62% of all the store sales of chains in the Survey. Since their results heavily affect the total results for the Survey, this chart shows the totals as they would appear if Southland were excluded.

	STORES	STORE DAYS	SMALL STORE SALES	AVERAGE SALES PER STORE PER DAY	SALES GROWTH PER STORE PER DAY	PRETAX PROFIT	AFTER TAX PROFIT	AFTER TAX PROFIT AS A PERCENT OF SALES	PRETAX PROFIT PER STORE PER DAY
Seven Companies Without Southland	8,425	2,982,676	$3,384,103,284	$1,135	$(95)	$115,800,385	$ 58,088,585	1.72%	$38.82
Southland	7,672	2,772,434	5,638,352,000	2,003	140	164,106,000	133,746,390	2.37%	59.19
Eight Companies Including Southland	16,097	5,755,110	9,022,455,284	1,568	(16)	279,906,385	191,834,975	2.13%	48.63

SOUTHLAND COMPARED WITH OTHER PUBLICLY-OWNED COMPANIES IN THE SURVEY

ON A DOLLARS OF PROFIT PER SHARE PER DAY BASIS

	1971 FIRST SURVEY	1975 FIFTH SURVEY	1980 TENTH SURVEY	1981 ELEVENTH SURVEY	1982 TWELFTH SURVEY	1983 THIRTEENTH SURVEY	1984 FOURTEENTH SURVEY	1985 FIFTEENTH SURVEY	1986 SIXTEENTH SURVEY	1987 SEVENTEENTH SURVEY
Other Companies Without Southland	$11.44	$17.28	$38.10	$32.44	$40.15	$38.63	$52.54	$54.07	$44.05	$38.82
Southland	17.15	25.45	38.42	46.44	60.67	59.34	55.58	50.80	63.99	59.19
Southland's Performance Above the Average	5.71	8.17	.32	14.00	20.52	20.71	3.04	-3.27	19.94	20.37
$DPD Survey Average — All Companies	14.45	21.16	38.18	40.24	51.70	50.24	54.24	52.30	53.87	48.63
Southland	17.15	25.45	38.42	46.44	60.67	59.34	55.58	50.80	63.99	59.19
Southland's Performance Above the Average	2.70	4.29	.24	6.20	8.97	9.10	1.34	-1.50	10.12	10.56

Utilities are a fixed cost for a given installation and do not vary with sales. Utility costs are very important to the profit and loss structure of small food stores. This year, we've included some information about electricity costs in various parts of the country.

Since 1973, electric costs have risen faster than the rate of inflation. Utility costs are the third greatest operating expense in these stores, outranked only by salary and occupancy costs. Utility costs are much more volatile than the other two, because rates are set by public utility commissions and rate-setting is complex. There appears to be almost nothing the store operator can do to control price escalations in this area.

To begin a study of utility costs, we called the power company in the headquarter cities of the eight chains in the survey. We gave each of them the same specifications and asked that they compute the costs of an average kilowatt. Utility company costs vary because of the price and source of power, approach and expenditure on nuclear development, utilization rate, capital expenditure rate and expectation of future demand, management and personnel efficiency, and amount of influence over the state public utility commissioners. The specifications were:

15,000 KWH (30 days & 500 KWH usage per day)
50 KW billing demand

It's important to remember that each company and even each store within a company used a different number of KWH per day. The type of building, age, maintenance, cleanliness of equipment, climatic differences, hours of operation, and discipline of personnel all make a difference in actual daily electric usage.

Electric utility rates are a complex issue. They should be studied closely by the companies in this industry because the costs of electricity can spell the difference between profit and loss for a particular store, concept, or company. It should be obvious from looking at the schedule of percentage cost of sales for electric power that significant power savings (as a percentage of sales) results from higher average daily sales.

ELECTRICITY COSTS AS A PERCENT OF SALES COST

ASSUMING 500 KWH PER DAY AT VARYING SALES AND KWH COSTS

COST PER KWH	TOTAL DAILY ELECTRIC COST	$600	$700	$800	$900	$1,000	$1,100	$1,200	$1,500	$2,000
$.12	$60	10.0%	8.6%	7.5%	6.7%	6.0%	5.5%	5.0%	4.0%	3.0%
.11	55	9.1	7.9	6.9	6.1	5.5	4.2	4.6	3.7	2.8
.10	50	8.3	7.1	6.3	5.6	5.0	4.6	4.2	3.3	2.5
.09	45	7.5	6.4	5.6	5.0	4.5	4.1	3.8	3.0	2.3
.08	40	6.6	5.7	5.0	4.4	4.0	3.6	3.3	2.7	2.0
.07	35	5.8	5.0	4.4	3.9	3.5	3.2	2.9	2.3	1.8
.06	30	5.0	4.3	3.8	3.3	3.0	2.7	2.5	2.0	1.5
.05	25	4.2	3.6	3.1	2.8	2.5	2.3	2.1	1.7	1.3
.04	20	3.3	2.9	2.5	2.2	2.0	1.8	1.7	1.3	1.0

Kilowatt hours costs as a percent of sales are only 30% at $2,000 average sales of what they are at $600 in daily sales.

In 1986 the highest cost per kilowatt hour in the United States was 14.25 cents in New York City. The lowest cost was 2.98 cents in Seattle, Washington (commercial rate, assuming 10,000 KWH, 40 KW demand). Source: *Electric Power Annual — 1986*, U.S. Department of Energy, September 1987. Assuming these rates and 500 KWH of daily usage, the average electric bill for a small food store would be $2,137.50 monthly in New York City and $447 in Seattle, Washington. At $600 a day in sales and $71.25 a day in electric cost, electricity would be 11.9% of sales in New York City.

ELECTRICAL COSTS IN THE HEADQUARTER CITIES OF THE DPD FIRMS

CITY	POWER COMPANY	COMPANIES HEADQUARTERED	1982 KWH COST	1985 KWH COST	1986 KWH COST	1987 KWH COST	KWH COST (1986 OVER 1985)	KWH COST (1987 OVER 1986)	1982 AVERAGE MONTHLY ELECTRIC BILL	1985 AVERAGE MONTHLY ELECTRIC BILL	1986 AVERAGE MONTHLY ELECTRIC BILL	1987 AVERAGE MONTHLY ELECTRIC BILL	1982 $DPD COST OF ELECTRICITY	1985 $DPD COST OF ELECTRICITY	1986 $DPD COST OF ELECTRICITY	1987 $DPD COST OF ELECTRICITY	$DPD OF ELECTRICITY INCREASE 1986 OVER 1985	$DPD OF ELECTRICITY INCREASE 1987 OVER 1986
1 Jacksonville, Florida	Jacksonville Electric Authority	Lil' Champ	7.9	—	—	—	—	—	$1,185	$ —	$ —	$ —	$39.50	$ —	$ —	$ —	$ —	$ —
2 Atlanta, Georgia	Georgia Power Authority	Munford	7.3	7.8	7.8	7.6	—	-.2	1,095	1,176	1,164	1,142	36.50	39.20	38.80	38.07	-.40	-.73
3 Tampa, Florida	Tampa Electric Company	Shop & Go	7.2	7.0	7.7	7.9	.7	.2	1,080	1,050	1,161	1,185	36.00	35.00	38.70	39.50	3.70	.80
4 Tampa, Florida	Tampa Electric Company	Little General	7.2	7.0	7.7	7.9	.7	.2	1,080	1,050	1,161	1,185	36.00	35.00	38.70	39.50	3.70	.80
5 Miami, Florida	Florida Power & Light	Mini Mart	6.7	—	—	—	—	—	1,080	—	—	—	38.50	—	—	—	—	—
6 Dallas, Texas	Dallas Power & Light	Seven Eleven	6.4	6.2	6.6	6.5	.4	-.1	960	936	996	973	32.00	31.20	33.20	32.43	2.00	-.77
7 Houston, Texas	Houston Lighting & Power	National Convenience Stores	5.9	7.0	5.9	6.1	-1.1	.2	885	1,046	882	920	29.50	34.87	29.40	30.67	-5.47	1.27
8 Panama City, Florida	Gulf Power Company	Sunshine Jr	5.8	6.8	6.6	6.2	-.2	-.4	870	1,018	994	937	29.00	33.93	33.13	31.23	-.80	-1.90
9 Phoenix, Arizona	Salt River Project	Circle K	5.8	8.2	8.3	8.7	.1	.4	870	1,234	1,250	1,304	29.00	41.13	41.67	43.47	.54	1.80
10 Louisville, Kentucky	Louisville Gas & Electric	CONNA	5.2	7.3	7.2	7.0	—	-.2	780	1,081	1,084	1,053	26.00	36.03	36.13	35.10	.10	-1.03
11 Des Moines, Iowa	Iowa Power	Casey's General Stores	N/A	8.3	8.0	7.8	-.3	-.2	N/A	1,240	1,193	1,170	N/A	41.33	39.77	39.00	-1.56	-.77
12 Enfield, Connecticut	Northeast Utilities	Dairy Mart	N/A	9.6	8.8	8.3	-.8	-.5	N/A	1,443	1,317	1,240	N/A	48.10	43.90	41.33	-4.20	-2.57
									981	1,127	1,120	1,111	32.70	37.58	37.34	37.03	-.24	-.31
Averages			6.52	7.51	7.46	7.40	-.05	-.06										

Percentage decrease in the cost of electricity for the chains since the last Survey was 1.5%.

Each increase of 1 cent a KWH increases the dollars per day of the cost of store operations by $5.00. Unless sales are increased, it would thus reduce profits by $5.00 a day or $1,825 a year. If a chain paid 8.7 cents per KWH for all of its electricity, its cost of operation over a chain paying 6.1 cents for all its kilowatts would be $13.00 a day higher. It would have a $4,745 higher yearly operating cost.

DOLLARS PER DAY SURVEY—FIRST ANNUAL REPORT 1972

CONVENIENCE STORE INDUSTRY RANKED BY PROFIT PER DAY

COMPANY	YEAR ENDED	STORES	STORE DAYS	CONVENIENCE STORE SALES	AVG. SALES PER DAY PER STORE	PRETAX PROFIT	AFTER TAX PROFIT	AFTER TAX PROFIT AS % OF SALES	PROFIT PER DAY PRETAX	PROFIT PER STORE AFTER TAX
Circle K	4/30/71	536	175,074	$ 93,607,624	$535	$ 5,846,536	$ 2,895,815	3.09%	$33.39	$16.54
Sunshine Jr.	12/31/70	98	31,766	11,753,761	370	614,711	321,494	2.73	19.35	10.12
Southland	12/31/70	3,734	1,327,056	748,949,792	564	22,757,874	11,283,353	1.50	17.15	8.50
UtoteM	2/28/71	496	167,936	65,579,870	391	2,636,864	1,276,689	1.95	15.70	7.60
Dillon	7/ 3/71	98	30,856	17,140,222	555	244,336	122,168	.71	7.27	3.95
Natl. Con.	6/30/71	487	172,113	72,000,000	418	1,220,101	760,101	1.05	7.09	4.41
Little General	12/26/70	497	181,405	61,721,000	340	1,152,370	576,185	.93	6.35	3.18
Jackson-Atl	1/ 2/71	928	338,720	103,900,023	307	1,985,471	981,148	.94	5.86	2.90
Con. Ind.	5/31/71	160	50,005	51,220,004	877	33,300	24,600	.05	2.04	1.02
Stop-N-Go	7/ 1/71	140	48,188	23,757,906	493	(45,058)	(23,058)	(.97)	(.94)	(.48)
Totals		7,151	2,523,119	$1,249,660,202	$495	$36,446,505	$18,218,495	1.45%	$14.45	$ 7.22

DOLLARS PER DAY SURVEY—FIFTH ANNUAL REPORT 1976

CONVENIENCE STORE INDUSTRY RANKED BY PROFIT PER DAY

COMPANY	YEAR ENDED	STORES	STORE DAYS	CONVENIENCE STORE SALES	AVG. SALES PER DAY PER STORE	PRETAX PROFIT	AFTER TAX PROFIT	AFTER TAX PROFIT AS % OF SALES	PROFIT PER DAY PRETAX	PROFIT PER STORE AFTER TAX
Li'l Champ	5/3/75	94	32,270	$ 17,447,409	$541	$ 1,178,177	$ 621,543	3.56%	$36.50	$19.26
Shop & Go	3/31/75	240	74,860	49,967,000	667	2,718,806	1,437,009	2.88	36.31	19.19
Sunshine Jr.	12/31/74	215	71,923	36,485,504	507	2,214,055	1,173,446	3.21	30.78	16.31
Hop-In	6/30/75	36	11,502	8,778,135	763	347,617	206,726	2.36	30.22	17.97
UtoteM	2/28/75	922	307,410	153,883,813	501	7,865,006	4,247,100	2.75	25.58	13.82
Southland	12/31/74	5,171	1,820,075	1,289,000,000	708	46,326,044	23,000,246	1.78	25.45	12.64
Circle K	4/30/75	1,024	359,746	228,325,795	634	9,051,035	4,718,035	2.06	25.15	13.11
Con. Ind.	5/25/75	218	71,344	68,276,208	957	1,353,000	677,853	.99	18.96	9.50
Little General	12/28/74	550	196,014	93,073,758	474	2,921,742	1,460,871	1.57	14.90	7.45
Munford	1/ 2/75	1,348	472,108	199,984,440	423	5,671,129	3,151,633	1.58	12.01	6.68
Stop-N-Go	6/26/75	168	56,784	49,612,731	874	486,174	244,174	.49	8.56	4.30
Natl. Con.	7/30/75	801	292,365	196,226,000	671	1,717,000	1,259,000	.64	5.87	4.30
Dillon	6/28/75	188	67,340	50,557,217	751	(724,916)	(395,659)	—	(10.76)	(5.87)
Totals		10,975	3,833,741	$2,441,618,010	$636	$81,124,869	$41,801,977	1.71%	$21.16	$10.90

TENTH ANNUAL DOLLARS PER DAY SURVEY—1981

THE SMALL FOOD STORE BUSINESS RANKED BY DOLLARS OF PROFIT PER STORE PER DAY

$DPD RANKING	COMPANY	YEAR ENDED	# OF STORES	STORE DAYS	SMALL FOOD STORE SALES	AVERAGE SALES PER STORE PER DAY	SALES INCREASE PER STORE PER DAY	PRETAX PROFIT	INVENTORY VALUATION METHOD	AFTER TAX PROFIT	AFTER TAX PROFIT AS A % OF SALES	PROFIT PER STORE PER DAY PRETAX	PROFIT PER STORE PER DAY AFTER TAX
1.	Circle K	4/30/80	1,200	431,514	$ 381,203,000	$ 883	$ 84	$ 31,703,000	FIFO	$ 16,948,000	4.45%	$73.47	$39.28
2.	Shop & Go	4/03/80	381	140,609	108,651,170	771	84	8,535,351	LIFO	4,476,110	4.12	60.70	31.83
3.	National Convenience Stores	6/30/80	817	296,192	306,929,000	1,036	117	13,295,000	FIFO	8,050,000	2.62	44.88	27.18
4.	Lil' Champ	5/03/80	138	49,710	30,446,909	612	68	2,195,618	LIFO-Gas FIFO-Stores	1,172,958	3.85	44.17	23.60
5.	Dillon	6/28/80	324	114,478	178,117,909	1,566*	219	5,000,801	LIFO	3,133,502	1.76*	43.68	27.37
6.	CONNA	5/25/80	336	118,664	182,559,000	1,538	107	4,751,246	FIFO	2,517,246	1.39	40.04	21.21
7.	Southland	12/31/79	6,805	2,446,127	2,658,708,000	1,087	137	93,991,938	LIFO	68,815,350	2.59	38.42	28.13
8.	UtoteM	2/29/80	927	339,282	280,296,000	826	97	11,099,332	FIFO	5,721,287	2.04	32.71	16.86
9.	Sunshine Jr.	12/31/79	336	118,980	59,729,229	502	32	3,691,867	FIFO	2,006,898	1.96	31.03	16.86
10.	Little General	12/29/79	464	168,896	141,487,000	838	155	4,342,056	FIFO	2,171,028	1.54	25.71	12.85
11.	Hop-In	6/30/80	140	49,776	37,260,652	749	35	1,193,129	LIFO-Gas FIFO-Stores	728,129	1.95	23.97	14.63
12.	Mini Mart	8/31/79	115	41,975	28,690,752	684	119	787,684	FIFO	470,684	1.64	18.77	11.21
13.	Munford	1/03/80	1,184	439,264	257,586,000	586	57	977,000	FIFO	586,590	.23	2.22	1.34
			13,167	4,755,467	$4,651,664,621	$ 978	119	$181,564,022		$116,797,782	2.51%	$38.18	$24.56

THE FIFTEENTH ANNUAL DOLLARS PER DAY SURVEY

THE SMALL FOOD STORE BUSINESS RANKED BY DOLLARS OF PROFIT PER STORE PER DAY

DOLLARS PER DAY RANKING	COMPANY	YEAR ENDED	NUMBER OF STORES	STORE DAYS	SMALL FOOD STORE SALES	AVERAGE SALES PER STORE PER DAY	SALES INCREASE PER STORE PER DAY	PERCENT OF SALES INCREASE IN $DPD SALES	PRETAX PROFIT	INVENTORY VALUATION METHOD	AFTER TAX PROFIT	AFTER TAX PROFIT AS A PERCENT OF STORE SALES	PROFIT PER STORE PER DAY PRETAX	PROFIT PER STORE PER DAY AFTER TAX
1	Shop & Go	3-25-85	446	159,432	$ 185,584,000	$1,164	$118	11%	$ 18,617,373	LIFO	$10,204,832	5.50%	$116.77	$64.00
2	Circle K	4-30-85	2,669	896,488	1,090,042,000	1,216	77	7%	59,090,000	LIFO	33,421,000	3.06%	65.91	37.27
3	National Convenience Stores	6-30-85	1,130	403,484	561,900,000	1,393	26	2%	23,538,000	FIFO	15,509,000	2.76%	58.33	38.43
4	Southland	12-31-84	7,473	2,703,276	4,793,890,000	1,773	117	7%	137,335,970	LIFO	127,722,440	2.66%	50.80	47.24
5	Casey's	4-30-85	482	165,865 83,015*	67,577,550*	814	8	1%	7,423,000	LIFO	4,143,000	—*	44.75	24.98
6	Sunshine Jr.	12-27-84	336	123,942	80,673,117	651	93	16%	3,491,352	LIFO	2,065,483	2.56%	28.16	16.66
7	Munford	1-3-85	835	324,770	302,543,640	931	86	10%	8,025,500	FIFO	5,601,799	1.85%	24.71	17.24
8	Dairy Mart	1-31-85	200	68,808	78,946,265	1,147	-47	-4%	1,650,035	LIFO	1,292,035	1.63%	23.98	18.78
9	CONNA	5-26-85	393	145,236	247,995,000	1,707	97	6%	1,896,000	FIFO	948,000	.38%	13.05	6.52
Totals & Averages			13,964	4,991,301 4,908,451*	$7,409,151,572	$1,509	$ 96	6.8%	$261,067,230		$200,907,589	2.71%	$52.30	$40.25

Sales shown on this schedule are for food stores only. All gasoline sales have been excluded.
Gasoline sales for the year were $3,582,304,786.
Total sales for both food and gasoline were $10,991,456,358.
*Casey's store sales for company operated stores only.

THE SIXTEENTH ANNUAL DOLLARS PER DAY SURVEY

THE CONVENIENCE STORE BUSINESS RANKED BY DOLLARS OF PROFIT PER STORE PER DAY

DOLLARS PER DAY RANKING	COMPANY	YEAR ENDED	NUMBER OF STORES	STORE DAYS	SMALL FOOD STORE SALES	AVERAGE SALES PER STORE PER DAY	SALES INCREASE PER STORE PER DAY	PERCENT OF SALES INCREASE IN $DPD SALES	PRETAX PROFIT	INVENTORY VALUATION METHOD	AFTER TAX PROFIT	AFTER TAX PROFIT AS A PERCENT OF STORE SALES	PROFIT PER STORE PER DAY PRETAX	PROFIT PER STORE PER DAY AFTER TAX
1	Southland	12-31-85	7,519	2,736,017	$5,181,300,000	$1,893	$120	7%	$175,082,860	LIFO	$131,819,880	2.54%	$63.99	$48.17
2	Circle K	4-30-86	3,372	1,120,429	1,368,367,000	1,221	5	—	70,642,000	LIFO	39,766,000	2.90%	63.04	35.49
3	Casey's	4-30-86	547	185,384[1] 102,534[*]	87,357,154[*]	851	37	5%	10,825,659	LIFO	6,248,659	—[*]	58.39	33.70
4	Sunshine Jr.	12-26-85	340	123,032	79,700,000	648	-3	—	4,448,726	LIFO	2,258,640	2.83%	33.62	17.35
5	CONNA	5-25-86	368	138,502	231,507,000	1,671	-36	-2%	3,332,000	FIFO	2,203,000	.95%	24.05	15.90
6	Munford	1-02-86	837	304,304	307,264,784	1,010	79	8%	7,046,000	FIFO	5,319,730	1.73%	23.15	17.48
7	Dairy Mart	1-31-86	933	170,750	269,830,601	1,580	433	38%	3,645,000	LIFO	2,217,000	.82%	21.34	12.98
8	National Convenience	6-30-86	958	402,996	563,000,000	1,397	4	—	4,152,000	FIFO	3,582,000	.64%	10.30	8.88
Totals & Averages			14,874	5,181,414	$8,088,326,539	$1,586	$ 77	5.1%	$279,174,245		$193,414,909	2.39%	$53.87	$37.32

Sales shown on this schedule are for food stores only. All gasoline sales have been excluded.
Gasoline sales for the year were $3,810,186,189.
Total sales for both food and gasoline were $11,898,512,728.

[1] Store days for all stores.

[*] Casey's store sales for company operated stores only.

DOLLARS PER DAY COMPARISON OF VARIOUS TYPES OF RETAILERS ON A DOLLARS PER DAY PER STORE BASIS SHOWING SALES AND PROFIT PER STORE PER DAY

FIGURES FOR YEARS ENDING	CLAIRE'S 1-31-87	THE LIMITED 1-31-87	McDONALDS 12-31-86	PEP BOYS 1-31-87	WALGREEN 8-31-86	PIC 'N' SAVE 12-31-86	TOYS R US 2-1-87	WEIS 12-27-86	WAL MART 1-31-87	CIRCUIT CITY 2-28-87	GIANT FOOD 2-28-87	PRICE COMPANY 8-31-86
Average Daily Sales Per Store	$ 626	$ 3,430	$ 3,720	$ 7,945	$ 8,158	$ 8,559	$ 21,986	$ 25,428	$ 34,139	$ 35,511	$ 49,210	$ 301,445
Pretax Per Store Per Day Profit	$ 75	$ 431	$ 254	$ 906	$ 434	$ 2,279	$ 2,556	$ 2,820	$ 2,425	$ 2,512	$ 1,815	$ 13,503
Margin %	50%	31%	64%	36%	30%	53%	32%	26%	30%	29%	28%	9%
Sales Per Store Per Year	$227,864	$1,251,950	$1,357,800	$2,891,980	$2,977,670	$3,124,035	$8,024,890	$9,255,792	$12,460,735	$12,961,515	$17,961,650	$110,027,420
Dollars Per Day Sales Growth	-$93	-$54	$217	$677	$245	$278	-$173	$2,238	$5,861	$11,639	$2,966	$37,641
Sales Growth % Dollars Per Day	-13%	-2%	6%	9%	3%	3%	-1%	10%	21%	49%	6%	14%
Return on Average Equity	24%	38%	21%	17%	20%	30%	19%	17%	30%	27%	16%	25%
Number of Stores	439	2,682	9,410	177	1,273	101	338	116	1,029	87	141	25
Percentage Store Growth	35%	14%	6%	11%	16%	7%	24%	-5%	17%	26%	4%	19%

HISTORICAL SUMMARY: CLAIRE'S STORES, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended January 31, 1987

	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
			YEAR ENDED		
	1/29/83	1/28/84	2/2/85	2/01/86	1/31/87
CLAIRE'S BOUTIQUES Miami, Florida					
Number of Stores	178	195	243	326	439
Net Store Growth in Year	6	17	48	83	113
% Store Growth in Year	3%	10%	25%	34%	35%
Store Operating Days	63,700	67,886	80,787	103,588	139,230
Sales Per Day Per Store	$416	$531	$691	$719	$626
Sales Growth $DPD	$29	$115	$160	$28	-$93
Sales Growth % on DPD Basis	7%	28%	30%	4%	-13%
Profit Per Day Per Store Pre Tax	$19	$81	$157	$133	$75
Pretax Profit % on Sales	4.6%	15.3%	22.7%	18.5%	11.9%
Gross Margin %	46.3%	50.0%	52.8%	49.4%	49.5%
Profit Per Day Per Store After Tax	$17	$58	$82	$72	$38
After Tax Profit % on Sales	4.1%	11.0%	11.8%	10.0%	6.1%
Return on Average Stockholder Equity	-%	47.3%	51.0%	40.6%	24.3%
Total Sales	$26,488,000	$36,048,000	$55,895,000	$74,456,000	$87,205,436
Average Sales Per Store Per Year	$151,424	$193,284	$252,215	$261,716	$227,864
Total Pretax Profit	$1,210,000	$5,513,000	$12,722,000	$13,770,000	$10,415,000
Total After Tax Profit	$1,090,000	$3,969,000	$6,600,000	$7,479 000	$5,323,000
Earnings Per Share Last 12 Months	$.05	$.24	$.40	$.45	$.33
Net Working Capital	$(441,000)	$3,546,000	$6,088,000	$3,062,000	$(831,000)
Cash & Equivalent	—	$5,610,896	$6,304,783	$1,419,567	$1,381,546
Debt to Worth	—	.89	.54	.63	.70
# of Employees	—	—	1,400	2,000	3,500
Sales Per Square Foot	$176	$225	$297	$308	$268

Type of Operation: Cosmetic Jewelry

HISTORICAL SUMMARY: THE LIMITED

Data Taken from the Annual Report and 10 K for the Year Ended	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
			YEAR ENDED		
	1/30/83	1/29/84	2/3/85	2/1/86	1/31/87
THE LIMITED **Columbus, Ohio** **Founded 1963** **Stores operate under The Limited, Limited Express, Lerner, Victoria's Secret, Lane Bryant, Sizes Unlmited, and Heri Bendel**					
Number of Stores	825	937	1,412	2,353	2,682
Net Store Growth in Year	395	112	475	941	329
% Store Growth in Year	92%	14%	51%	67%	14%
Store Operating Days	228,410	320,684	435,502	685,230	916,370
Sales Per Day Per Store	$3,158	$3,386	$3,084	$3,484	$3,430
Sales Growth $DPD	$595	$228	-$302	$400	-$54
Sales Growth % on DPD Basis	23%	7%	-9%	13%	-2%
Profit Per Day Per Store Pre Tax	$265	$421	$362	$349	$431
Pretax Profit % on Sales	8.4%	12.4%	11.7%	10.0%	12.6%
Gross Margin %	29.0%	30.2%	30.1%	30.1%	30.6%
Profit Per Day Per Store After Tax	$147	$221	$212	$212	$248
After Tax Profit % on Sales	4.7%	6.5%	6.9%	6.1%	7.2%
Return on Average Stockholder Equity	33%	45%	40%	43%	38%
Total Sales	$721,394,000	$1,085,890,000	$1,343,134,000	$2,387,110,000	$3,142,696,000
Average Sales Per Store Per Year	$1,152,670	$1,235,890	$1,125,660	$1,271,660	$1,251,950
Total Pretax Profit	$60,592,000	$134,939,000	$157,495,000	$239,317,000	$394,780,000
Total After Tax Profit	$33,592,000	$70,939,000	$92,495,000	$145,317,000	$227,780,000
Earnings Per Share Last 12 Months	$.29	$.59	$.77	$.80	$1.21
Net Working Capital	$22,887,000	$40,131,000	$67,260,000	$62,906,000	$134,327,000
Cash & Equivalents	$5,489,000	$1,282,000	$7,494,000	$12,948,000	$3,256,000
Debt to Worth	1.61	.96	1.05	2.00	.76

Type of Operation: Specialty Women's Stores

HISTORICAL SUMMARY: McDONALD'S CORPORATION

Data Taken from the Annual Report
and 10 K for the Year Ended December 31, 1986

	SURVEY	SURVEY	SURVEY	SURVEY	SURVEY
			YEAR ENDED		
	12/31/82	12/31/83	12/31/84	12/31/85	12/31/86
McDONALD'S Oak Brook, Illinois Founded in 1955 Restaurants operate un der the "McDonald's" name in 41 countries					
Number of Restaurants	7,259	7,778	8,304	8,901	9,410
Net Restaurant Growth in Year	520	519	526	597	509
% Restaurant Growth in Year	8%	7%	7%	7%	6%
Restaurant Operating Days	2,554,375	2,743,993	2,943,006	3,139,614	3,341,503
Sales Per Day Per Restaurant	$3,057	$3,166	$3,400	$3,503	$3,720
Sales Growth $DPD	$257	$109	$234	$103	$217
Sales Growth % on DPD Basis	9%	4%	7%	3%	6%
Profit Per Day Per Store Pre Tax	$214	$229	$240	$249	$254
Pretax Profit % on Sales	7.0%	7.2%	7.0%	7.1%	6.8%
Gross Margin %	63.0%	63.2%	62.6%	63.5%	63.9%
Profit Per Day Per Restaurant After Tax	$118	$125	$132	$138	$144
After Tax Profit % on Sales	3.9%	3.9%	3.9%	3.9%	3.9%
Return on Average Stockholder Equity	20.8%	20.9%	21.0%	21.2%	20.6%
Total Sales	$7,809,000,000	$8,687,000,000	$10,007,000,000	$11,001,000,000	$12,432,000,000
Average Sales Per Store Per Year	$1,115,805	$1,155,590	$1,241,000	$1,278,595	$1,357,800
Total Pretax Profit	$546,000,000	$628,000,000	$707,000,000	$782,000,000	$848,000,000
Total After Tax Profit	$301,000,000	$343,000,000	$389,000,000	$433,000,000	$480,000,000
Earnings Per Share Last 12 Months	$3.33	$3.83	$2.92	$3.32	$3.73
Net Working Capital	$—	$(198,524,000)	$(259,722,000)	$(294,001,000)	$(326,656,000)
Cash & Equivalents	—	66,479,000	$74,520,000	$155,413,000	$205,098,000
Debt to Worth	—	1.12	1.10	1.24	1.38

Type of Operation: Fast Food Restaurant

HISTORICAL SUMMARY: PEP BOYS

Data Taken from the Annual Report
and 10 K for the Year Ended January 31, 1987

	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
			YEAR ENDED	
	1/31/84	2/02/85	1/1/86	1/31/87
PEP BOYS **Philadelphia, PA** **Founded 1921** **Stores operate under the "Pep Boys" name in ten states**				
Number of Stores	124	135	159	177
Net Store Growth in Year	13	11	24	18
% Store Growth in Year	12%	9%	18%	11%
Store Operating Days	42,881	47,656	53,508	61,152
Sales Per Day Per Store	$7,132	$7,309	$7,268	$7,945
Sales Growth $DPD	—	$177	$-41	$677
Sales Growth % on DPD Basis	—	2%	-1%	9%
Profit Per Day Per Store Pre Tax	$673	$731	$727	$906
Pretax Profit % on Sales	9.4%	10.0%	10.0%	11.4%
Gross Margin %	35.4%	35.1%	35.2%	35.6%
Profit Per Day Per Store After Tax	$362	$385	$394	$460
After Tax Profit % on Sales	5.1%	5.3%	5.4%	5.8%
Return on Average Stockholder Equity	18.2%	17.6%	17.4%	16.7%
Total Sales	$305,835,000	$348,350,000	$388,914,000	$485,899,000
Average Sales Per Store Per Year	$2,603,180	$2,667,785	$2,652,820	$2,891,980
Total Pretax Profit	$28,868,000	$34,847,000	$38,929,000	$55,412,000
Total After Tax Profit	$15,542,000	$18,340,000	$21,100,000	$28,148,000
Earnings Per Share Last 12 Months	$1.00	$1.17	$1.29	$1.55
Net Working Capital	$17,024,000	$17,242,000	$29,205,000	$90,733,000
Cash & Equivalent	$13,308,000	$1,097,000	$6,748,000	$69,873,000
Debt to Worth	.61	.72	.97	.84

Type of Operation: Automotive

HISTORICAL SUMMARY: WALGREEN COMPANY

Data Taken from the Annual Report
and 10 K for the Year Ended

	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
			YEAR ENDED	
	8/31/83	8/31/84	8/31/85	8/31/86
WALGREEN'S **Deerfield, Illinois** **Founded 1901** **Stores operate under the "Walgreen's" name in thirty states and Puerto Rico**				
Number of Stores	941	1,002	1,095	1,273
Net Store Growth in Year	58	61	93	178
% Store Growth in Year	7%	6%	9%	16%
Store Operating Days	332,851	355,569	382,656	432,071
Sales Per Day Per Store[1]	$6,724	$7,352	$7,913	$8,158
Sales Growth $DPD	$536	$628	$561	$245
Sales Growth % on DPD Basis	9%	9%	8%	3%
Profit Per Day Per Store Pre Tax[2]	$362	$422	$454	$434
Pretax Profit % on Sales[3]	5.11%	5.46%	5.49%	5.12%
Gross Margin %[3]	30.6%	30.8%	30.7%	30.3%
Profit Per Day Per Store After Tax[2]	$210	$240	$246	$239
After Tax Profit % on Sales[3]	2.96%	3.11%	2.98%	2.81%
Return on Average Stockholder Equity	21.4%	22.3%	21.0%	19.9%
Total Sales[1]	$2,238,217	$2,614,265	$3,028,034	$3,524,691
Average Sales Per Store Per Year[1]	$2,454,260	$2,683,480	$2,888,245	$2,977,670
Total Pretax Profit	$120,549,000	$149,983,000	$173,700,000	$187,626,000
Total After Tax Profit[3]	$69,789,000	$85,446,000	$94,169,000	$103,13[illegible],000
Earnings Per Share Last 12 Months	$1.14	$1.39	$1.53	$1.67
Net Working Capital	$151,532,000	$211,759,000	$257,028,000	$331,330,000
Cash & Equivalent	$67,830,000	56,593,000	$82,433,000	$98,102,000
Debt to Worth	1.95	1.03	1.00	1.16
Sales Area Square Footage	8,402,000	9,002,000	10,010,000	11,895,000
Sales per Square Foot—Average Sales Area	$276	$300	$319	$322
Type of Operation: Drug Store				

[1] Drug Stores Only.

[2] Walgreen operates 94 separate restaurants that do 3.3% of total corporate sales. We have ignored these operations and assumed all profits come from the drug stores in the profit analysis.

[3] All operations included.

HISTORICAL SUMMARY: PIC 'N' SAVE CORPORATION

Data Taken from the Annual Report
and 10 K for the Year Ended December 31, 1986

	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
			YEAR ENDED		
	12/31/82	12/31/83	12/31/84	12/31/85	12/31/86
PIC 'N' SAVE Carson, California					
Number of Stores	80	85	90	94	101
Net Store Growth in Year	5	5	5	4	7
% Store Growth in Year	7%	6%	6%	4%	7%
Store Operating Days	28,285	30,110	32,025	33,578	35,584
Sales Per Day Per Store	$6,283	$7,543	$7,342	$8,281	$8,559
Sales Growth $DPD	$1,422	$1,260	-$201	$928	$278
Sales Growth % on DPD Basis	29%	20%	-3%	13%	3%
Profit Per Day Per Store Pre Tax	$1,929	$2,448	$2,257	$2,457	$2,279
Pretax Profit % on Sales	30.7%	32.4%	30.7%	29.7%	26.6%
Gross Margin %	54.6%	54.9%	53.7%	53.8%	53.4%
Profit Per Day Per Store After Tax	$955	$1,211	$1,140	$1,223	$1,118
After Tax Profit % on Sales	15.2%	16.0%	15.5%	14.8%	13.1%
Return on Average Stockholder Equity	31.8%	31.0%	35.2%	44.9%	30.1%
Total Sales	$177,738,000	$227,130,000	$235,147,000	$278,072,000	$304,548,000
Average Sales Per Store Per Year	$2,293,295	$2,753,195	$2,679,830	$3,022,565	$3,124,035
Total Pretax Profit	$54,556,000	$73,699,000	$72,281,000	$82,510,000	$81,091,000
Total After Tax Profit	$27,009,000	$36,451,000	$36,510,000	$41,074,000	$39,767,000
Earnings Per Share Last 12 Months	$.87	$1.17	$1.25	$1.56	$1.01
Net Working Capital	$79,230,000	$98,164,000	$41,845,000	$57,630,000	$94,266,000
Cash & Equivalent	—	$88,446,000	$22,313,000	$37,017,000	$58,782,000
Debt to Worth	—	.23	.64	.28	.23
Type of Stores: Close Out					

HISTORICAL SUMMARY: TOYS 'R' US ROCHELLE PARK, NEW JERSEY

Data Taken from the Annual Report
and 10 K for the Year Ended February 1, 1987

	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
			YEAR ENDED		
	1/30/83	1/29/84	2/3/85	2/2/86	2/1/87
TOYS 'R' US & KIDS 'R' US Rochelle Park, New Jersey					
Number of Stores	148	175	217	273	338
Net Store Growth in Year	28	27	42	56	65
% Store Growth in Year	23%	18%	24%	26%	24%
Store Operating Days	48,776	58,786	72,695	89,180	111,202
Sales Per Day Per Store	$21,357	$22,448	$23,408	$22,159	$21,986
Sales Growth $DPD	$	$1,091	$960	-$1,249	-$173
Sales Growth % on DPD Basis	—	5%	4%	-5%	-1%
Profit Per Day Per Store Pre Tax	$2,549	$3,032	$2,836	$2,464	$2,556
Pretax Profit % on Sales	11.9%	13.5%	12.1%	11.1%	11.6%
Gross Margin %	32.3%	33.2%	33.1%	33.1%	31.8%
Profit Per Day Per Store After Tax	$1,315	$1,570	$1,533	$1,343	$1,369
After Tax Profit % on Sales	6.2%	7.0%	6.5%	6.1%	6.2%
Return on Average Stockholder Equity	24.2%	23.6%	21.5%	18.5%	18.8%
Total Sales	$1,041,735,000	$1,319,642,000	$1,701,700,000	$1,976,134,000	$2,444,903,000
Average Sales Per Store Per Year	$7,795,305	$8,193,520	$8,543,920	$8,088,035	$8,248,890
Total Pretax Profit	$124,322,000	$178,242,000	$206,174,000	$219,774,000	$284,217,000
Total After Tax Profit	$64,162,000	$92,317,000	$111,424,000	$119,774,000	$152,217,000
Earnings Per Share Last 12 Months	$.52	$.72	$.87	$.93	$1.17
Net Working Capital	$157,405,000	$220,442,000	$221,640,000	$181,162,000	$155,421,000
Cash & Equivalent	$134,516,000	$235,838,000	$215,279,000	$136,171,000	$84,379,000
Debt to Worth	.73	.78	.90	.71	.69

Type of Operation: Discount Toys

HISTORICAL SUMMARY: WEIS MARKETS, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended

	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
	YEAR ENDED				
	12/25/82	12/31/83	12/29/84	12/28/85	12/27/86
WEIS MARKETS **Sunbury, Pennsylvania**					
Number of Stores	112	116	119	122	116
Net Store Growth in Year	2	4	3	3	-6
% Store Growth in Year	2%	4%	3%	3%	-5%
Store Operating Days	40,404	43,764	42,770	43,862	43,316
Sales Per Day Per Store	$20,102	$20,378	$22,393	$23,190	$25,428
Sales Growth $DPD		$276	$2,015	$797	$2,238
Sales Growth % on DPD Basis		1%	10%	4%	10%
Profit Per Day Per Store Pre Tax	$2,046	$2,188	$2,445	$2,520	$2,820
Pretax Profit % on Sales	10.18%	10.73%	10.92%	10.86%	11.09%
Gross Margin %		25.50%	25.49%	25.97%	25.99%
Profit Per Day Per Store After Tax	$1,070	$1,145	$1,293	$1,371	$1,507
After Tax Profit % on Sales	5.32%	5.62%	5.77%	5.91%	5.92%
Return on Average Stockholder Equity	18.90%	18.94%	18.20%	17.44%	16.88%
Total Sales	$812,215,000	$891,857,000	$957,775,000	$1,017,000,000	$1,101,473,000
Average Sales Per Store Per Year	$7,337,230	$7,437,970	$8,173,445	$8,464,350	$9,255,792
Total Pretax Profit	$82,696,000	$95,742,000	$104,612,000	$110,537,000	$122,148,000
Total After Tax Profit	$43,241,000	$50,120,000	$55,307,000	$60,144,000	$65,261,000
Earnings Per Share Last 12 Months	$1.40	$1.62	$1.79	$1.95	$2.13
Net Working Capital	$148,178,000	$179,624,000	$216,441,000	$238,012,000	$277,255,000
Cash & Equivalents			$203,421,000	$210,350,000	$255,643,000
Debt to Worth				.17	.16
# of Employees				12,400	13,000

Type of Operation: Supermarkets

HISTORICAL SUMMARY: WAL-MART STORES, INC.

WAL-MART AND SAMS
Bentonville, Arkansas
Founded in 1952
Stores operate under the "Wal-Mart and Sams" wholesale club name in twenty-two states

Data Taken from the Annual Report and 10 K for the Year Ended	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
			YEAR ENDED		
	1/31/83	1/31/84	1/31/85	1/31/86	1/31/87
Number of Stores	551	645	756	882	1,029
Net Store Growth in Year	60	94	111	126	147
% Store Growth in Year	12%	17%	17%	17%	17%
Store Operating Days	190,135	218,223	256,383	298,872	348,831
Sales Per Day Per Store	$17,757	$21,385	$24,966	$28,278	$34,139
Sales Growth $DPD	$1,431	$3,628	$3,581	$3,312	$5,861
Sales Growth % on DPD Basis	9%	20%	17%	13%	21%
Profit Per Day Per Store Pre Tax	$1,181	$1,637	$1,959	$2,020	$2,425
Pretax Profit % on Sales	6.7%	7.7%	7.8%	7.1%	7.1%
Gross Margin %	27.2%	26.8%	26.2%	24.7%	24.0%
Profit Per Day Per Store After Tax	$653	$899	$1,056	$1,096	$1,290
After Tax Profit % on Sales	3.7%	4.2%	4.2%	3.9%	3.8%
Return on Average Stockholder Equity	30.6%	13.2%	31.5%	28.9%	30.3%
Total Sales	$3,376,252,000	$4,666,909,000	$6,400,861,000	$8,451,489,000	$11,909,076,000
Average Sales Per Store Per Year	$6,481,305	$7,805,525	$9,112,590	$10,321,470	$12,460,735
Total Pretax Profit	$224,556,000	$357,147,000	$501,420,000	$603,592,000	$846,026,000
Total After Tax Profit	$124,140,000	$196,244,000	$270,767,000	$327,473,000	$450,086,000
Earnings Per Share Last 12 Months	$.46	$.70	$.96	$1.16	$1.59
Net Working Capital	$373,219,000	$502,804,000	$614,286,000	$791,592,000	$1,012,980,000
Cash & Equivalent	$33,282,000	$156,860,000	$1,852,000	$174,418,000	$165,545,000
Debt to Worth	1.43	1.24	1.24	1.43	1.39
Total Square Footage—Stores	27,727,803	34,328,171	41,503,225	51,105,317	63,017,230
Sales Per Square Foot	$122	$136	$154	$165	$189

Type of Operation: Low Priced General Merchandise

HISTORICAL SUMMARY: CIRCUIT CITY STORES, INC.

Data Taken from the Annual Report and 10 K for the Year Ended

	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
			YEAR ENDED		
	2/28/83	2/29/84	2/28/85	2/28/86	2/28/87
CIRCUIT CITY **Richmond, Virginia**					
Number of Stores	101	98	93	69	87
Net Store Growth in Year	4	-3	-5	-24	18
% Store Growth in Year	4%	-3%	-5%	-26%	26%
Store Operating Days	36,133	36,414	34,855	29,553	28,461
Sales Per Day Per Store	$6,805	$9,796	$14,896	$23,872	$35,511
Sales Growth $DPD	$1,830	$2,991	$5,100	$8,976	$11,639
Sales Growth % on DPD Basis	37%	44%	52%	60%	49%
Profit Per Day Per Store Pre Tax	$254	$613	$1,090	$1,354	$2,512
Pretax Profit % on Sales	3.7%	6.3%	7.3%	5.7%	7.1%
Gross Margin %	28.1%	28.8%	28.6%	28.3%	28.8%
Profit Per Day Per Store After Tax	$224	$337	$390	$745	$1,240
After Tax Profit % on Sales	2.2%	3.4%	3.9%	3.1%	3.5%
Return on Average Stockholder Equity	23.4%	28.9%	29.3%	22.0%	27.3%
Total Sales	$245,914,000	$356,708,000	$519,214,000	$705,490,000	$1,010,692
Average Sales Per Store Per Year	$2,483,825	$3,575,540	$5,437,040	$8,713,280	$12,961,515
Total Pretax Profit	$9,207,000	$22,309,000	$38,009,000	$40,021,000	$71,500,000
Total After Tax Profit	$5,507,000	$12,009,000	$20,234,000	$22,021,000	$35,300,000
Earnings Per Share Last 12 Months	—	—	$.97	$.99	$1.58
Net Working Capital	$—	$21,761,000	$71,126,000	$56,619,000	$97,320,000
Cash & Equivalent	$—	$21,761,000	$45,230,000	$5,124,000	$33,728,000
Debt to Worth	—	1.26	1.15	1.18	1.42
Sales per Square foot of Selling Space	$704	$989	$1,371	$1,384	$1,489

Type of Operation: Electronic Superstores

HISTORICAL SUMMARY: GIANT FOOD, INC. WASHINGTON, D.C.

Data Taken from the Annual Report
and 10 K for the Year Ended February 28, 1987

	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
			YEAR ENDED		
	2/26/83	2/25/84	2/23/85	2/22/86	2/28/87
GIANT FOOD, INC. Washington, D.C.					
Number of Stores	130	131	131	136	141
Net Store Growth in Year	—	1	0	5	5
% Store Growth in Year	—	—	—	4%	4%
Store Operating Days	47,320	47,502	47,684	48,594	51,381
Sales Per Day Per Store	$39,141	$41,207	$44,853	$46,244	$49,210
Sales Growth $DPD	$3,001	$2,066	$3,646	$1,391	$2,966
Sales Growth % on DPD Basis	8%	5%	9%	3%	6%
Profit Per Day Per Store Pre Tax	$1,427	$1,541	$1,729	$2,111	$1,815
Pretax Profit % on Sales	3.6%	3.7%	3.9%	4.6%	3.7%
Gross Margin %	26.3%	27.5%	28.0%	28.9%	28.3%
Profit Per Day Per Store After Tax	$786	$853	$948	$1,173	$904
After Tax Profit % on Sales	2.0%	2.1%	2.1%	2.5%	1.8%
Return on Average Stockholder Equity	25.3%	22.8%	21.4%	23%	16%
Total Sales	$1,852,134,000	$1,957,435,000	$2,138,789,000	$2,247,218,000	$2,528,492,000
Average Sales Per Store Per Year	$14,286,465	$15,040,555	$16,371,345	$16,832,816	$17,961,650
Total Pretax Profit	$67,526,000	$73,246,000	$82,428,000	$102,595,000	$93,266,000
Total After Tax Profit	$37,213,000	$40,511,000	$45,221,000	$57,003,000	$46,453,000
Earnings Per Share Last 12 Months	$1.27	$1.38	$1.53	$1.90	$1.55
Net Working Capital	$47,136,000	$56,969,000	$68,415,000	$62,897,000	$78,534,000
Cash & Equivalents	$88,091,000	$84,237,000	$95,904,000	$92,481,000	$105,611,000
Debt to Worth	1.79	1.48	1.36	1.29	1.53
Gross Square Foot of Store Space	4,316,000	4,396,000	4,419,000	4,590,000	4,968,000
Sales per Square Foot	$429	$445	$484	$490	$509
Type of Operation: Supermarket					

Giant operated 33 "Pants Corrals" in 1983. In fiscal 1986 these units were sold and/or closed. The results of this operation are included in the figures shown on this schedule.

HISTORICAL SUMMARY: THE PRICE COMPANY

Data Taken from the Annual Report
and 10 K for the Year Ended August 31, 1987

	11TH SURVEY	12TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY	16TH SURVEY	17TH SURVEY
				YEAR ENDED			
	8/31/81	8/31/82	8/31/83	8/31/84	8/31/85	8/31/86	8/31/87
Stores Operate Under THE PRICE CLUB							
Number of Stores	4	7	11	15	21	25	34
Net Store Growth in Year	0	3	4	4	6	4	9
% Store Growth in Year	0	75%	57%	36%	40%	19%	36%
Store Operating Days	1,460	2,171	3,047	4,680	6,952	8,593	10,071
Sales Per Day Per Store	$155,342	$168,678	$207,712	$243,888	$263,804	$301,445	$321,350
Sales Growth $DPD	$55,000	$13,336	$39,034	$36,176	$19,916	$37,641	$19,905
Sales Growth % on DPD Basis	55%	9%	23%	17%	8%	14%	7%
Profit Per Day Per Store Pre Tax	$7,010	$7,156	$9,595	$12,022	$13,040	$13,503	$13,868
Pretax Profit % on Sales	4.51%	4.24%	4.62%	4.93%	4.94%	4.48%	4.32%
Gross Margin %	10.4%	10.8%	10.7%	10.1%	9.4%	8.7%	8.9%
Profit Per Day Per Store After Tax	$3,512	$3,635	$4,834	$6,111	$6,611	$6,854	$7,280
After Tax Profit % on Sales	2.26%	2.16%	2.33%	2.50%	2.50%	2.27%	2.27%
Return on Average Stockholder Equity	56.0%	49.2%	33.0%	33.5%	35.0%	25.4%	21.5%
Total Sales	$226,800,000	$366,200,000	$632,900,000	$1,141,400,000	$1,833,972,000	$2,590,319,000	$3,236,321,000
Average Sales Per Store Per Year	$56,699,830	$61,567,000	$75,814,880	$89,019,120	$96,288,460	$110,027,420	$116,971,400
Total Pretax Profit	$10,235,000	$15,537,000	$29,239,000	$56,266,000	$90,656,000	$116,036,000	$139,665,000
Total After Tax Profit	$5,100,000	$7,900,000	$14,700,000	$28,600,000	$45,963,000	$58,900,000	$73,324,000
Earnings Per Share Last 12 Months	N/A	$.20	$.34	$.64	$1.01	$1.25	$1.50
Net Working Capital	-$620,000	-$7,010,000	$8,073,000	$84,066,000	$95,042,000	$74,199,000	$222,383,000
Cash & Equivalents	$4,422,000	$8,581,000	$32,686,000	$108,071,000	$146,934,000	$135,101,000	$263,586,000
Debt to Worth	.49	.53	.96	.61	.73	.63	1.20
# of Employees						7,000+	—
# Store Owned	3	6	7	11	—	—	—
% of Stores Owned	75%	86%	64%	73%	—	—	—
Type of Store: Warehouse							

HOW MUCH GASOLINE IS SOLD FROM CONVENIENCE STORES?

No one knows for sure. We do know that the eight chains in this Survey sold 3,993,566,490 gallons of gasoline in 1986. That was 3.74% of the total highway gasoline sold in the United States in 1986.

From this point on, the figures are all estimates. One reasonable sounding estimate is that there are 64,000 convenience stores operating in the United States. The eight chains in the Dollars Per Day Survey operated 16,097 stores or about 25% of the total convenience stores. 8,716 of these stores sold gasoline. If these figures are representative of the total convenience store population and are multiplied by four, you arrive at the following:

# of Convenience Stores	Gasoline Units	Gallons Sold	% of 107 Billion National Gas Market
64,000	34,864	15,974,265,000	14.95%

The amount of gasoline sold by oil companies and oil jobbers through convenience type outlets is unknown.

ANOTHER WAY TO ESTIMATE THE PERCENTAGE OF TOTAL GASOLINE SOLD IN THE UNITED STATES BY C-TYPE STORES—1986

YEAR	# OF C-STORES	% OF C-STORES WITH GASOLINE	# OF GAS UNITS	GALLONS PUMPED PER UNIT DAILY	GALLONS PUMPED PER UNIT YEARLY	TOTAL GALLONS PUMPED	AMOUNT OF HIGHWAY GAS CONSUMED— BILLIONS OF GALLONS	% OF NATIONAL MARKET SUPPLIED BY C-STORES
1982	50,000	59%	29,641	1,101	401,865	11,909,352,000	98.5	12.09%
1983	53,000	63%	33,352	1,201	438,365	14,620,349,000	99.4	14.71%
1984	58,000	68%	37,531	1,227	447,855	16,808,446,000	101.4	16.58%
1985	60,000	60%	34,701	1,276	465,740	16,161,643,000	103.6	15.60%
1986	64,000	59%	37,954	1,330	485,450	18,424,769,000	106.8	17.25%

Southland's numbers heavily weigh the Dollars Per Day Survey.

Southland was a late entry into the gasoline business (they had only 75 units in 1970; just 2% of their stores had gasoline at that time), and today has a lower percentage of gasoline units than the other chains in the Survey. (47% of Southland's store units sold gasoline in 1986, versus 61% of the stores operated by the rest of the Survey chains).

To compute a better estimate of the total percent of the national gasoline market supplied by C-type stores, we have adjusted the Survey figures as follows:

Estimate of total of C-type stores	64,000
Less Southland's 12% of total C-type stores	-7,672
C-type stores other than Southland's	56,328
Multiplied by the 61% having gas units	× 61%
C-type stores other than Southland's having gas units	34,360
Plus Southland's gasoline units (9.5% of industry total)	+ 3,594
Total C-type stores with gasoline units	37,954
Percentage of the total 64,000 C-type store units with gasoline	59.3%

Many of these units were developed from gasoline stations and by people with gasoline backgrounds. Units springing from these backgrounds typically develop higher gasoline gallonages per unit than those developed by the traditional convenience stores in the Dollars Per Day Survey. Our estimate of the percentage of the gasoline sold through C-type stores should be considered an estimate. It is possible that the number of units, the amount of gasoline sold, and the percentage of the national market supplied by C-type stores is lower or higher than the figures shown in this estimate.

C-TYPE STORE GASOLINE SALES

Using the Average of the Chains in the Dollars Per Day Survey as the Base

YEAR	# OF C-STORES	% OF STORES WITH GAS PUMPS	# OF GAS UNITS	GALLONS PUMPED PER UNIT	AMOUNT OF TOTAL GALLONS PUMPED	HIGHWAY GAS CONSUMED— BILLIONS OF GALLONS	PERCENT OF NAT'L. MARKET SUPPLIED BY C-STORES	INCREASE	PERCENT OF INCREASE OVER PREVIOUS YEAR
1980	39,000	44.45%	17,160	359,890	6,175,712,000	101.2	6.10%		
1981	39,000	46.76%	18,330	379,600	6,958,068,000	99.6	6.99%	0.89%	14.2%
1982	50,000	49.11%	24,555	401,865	9,865,663,000	98.5	10.01%	3.02%	43.2%
1983	53,000	53.14%	28,164	438,365	12,346,111,000	99.4	12.42%	2.41%	24.1%
1984	58,000	54.36%	31,528	447,855	14,119,972,000	101.4	13.92%	1.50%	10.9%
1985	60,000	53.44%	32,064	465,740	14,933,487,000	103.6	14.41%	0.49%	12.0%
1986	64,000	54.15%	34,656	485,450	16,823,755,000	106.8	15.75%	1.34%	9.3%

CONVENIENCE STORES WITH GASOLINE UNITS

DOLLARS PER DAY PROFIT RANKING	COMPANY	NUMBER OF STORES	NUMBER OF GASOLINE UNITS	PERCENT OF STORES WITH GASOLINE	GASOLINE UNITS ADDED DURING YEAR	NET STORES ADDED DURING YEAR
1	Casey's	586	586	100%	39	39
2	Circle K	3,507	2,433	69%	140	135
3	Southland	7,672	3,594	47%	381	153
4	Sunshine Jr.	330	317	96%	-5	-10
5	Munford	792	448	57%	-11	-55
6	Silcorp	1,053	200	19%	24	70
7	Dairy Mart	1,207	415	34%	278*	274
8	National Convenience	950	723	76%	10	-8
	Total	16,097	8,716	54%	856	598

*Dairy Mart bought Conna during the year and about 270 gasoline units.

RECAP OF IMPORTANT GASOLINE STATISTICS FOR THE CHAINS IN THE SURVEY

	1982	1983	1984	1985	1986
Number of Gasoline Units	6,029	7,378	7,592	7,949	8,716
Gallons Sold	2,328,127,593	2,926,108,199	3,281,690,023	3,545,037,630	3,993,566,490
Percent of Total U.S. Highway Gallons Used	2.36%	2.94%	3.24%	3.42%	3.74%
Average Gallonage Gasoline Unit per Day	1,101	1,201	1,227	1,276	1,330
Gasoline as a Percent of Total Sales	31.07%	31.40%	32.59%	32.02%	26.6%
Average Retail Price per Gallon	115.0¢	111.4¢	109.2¢	107.5¢	83.9¢

TOTAL GASOLINE SALES IN DOLLARS

PER DAY PROFIT RANKING	COMPANY	GAS DOLLAR SALES
1	Casey's	$ 173,372,640
2	Circle K	731,200,000
3	Southland	1,500,858,100
4	Sunshine Jr.	70,434,050
5	Munford	335,600,000
6	Silcorp	77,088,086
7	Dairy Mart	72,197,000
8	National Convenience	313,000,000
	Total Dollars of Gasoline Sold	$3,273,749,876

STORES WITH GASOLINE UNITS

SURVEY YEAR	NUMBER OF STORES	NUMBER OF STORES WITH GAS UNITS	GAS UNITS ADDED DURING YEAR	PERCENT OF STORES WITH GAS
1974-Fourth Survey	9,258	1,964		21.21%
1975-Fifth Survey	10,143	2,147	194	21.16%
1976-Sixth Survey	11,356	2,786	557	24.53%
1977-Seventh Survey	11,953	3,792	959	31.72%
1978-Eighth Survey	12,597	4,584	792	36.38%
1979-Ninth Survey	12,920	5,153	569	39.88%
1980-Tenth Survey	13,167	5,630	447	42.76%
1981-Eleventh Survey	12,445	5,533	442	44.45%
1982-Twelfth Survey	12,400	5,799	393	46.76%
1983-Thirteenth Survey	12,276	6,029	480	49.11%
1984-Fourteenth Survey	13,883	7,378	990	53.14%
1985-Fifteenth Survey	13,964	7,592	527	54.36%
1986-Sixteenth Survey	14,874	7,949	686	53.44%
1987-Seventeenth Survey	16,097	8,716	767	54.15%

SCHEDULE OF IMPORTANT GASOLINE INFORMATION

DOLLARS PER DAY PROFIT RANKING	COMPANY	NUMBER OF GASOLINE UNITS	NUMBER OF GALLONS SOLD THIS YEAR	GASOLINE OPERATING DAYS	AVERAGE GALLONS SOLD PER DAY PER GASOLINE UNIT	GASOLINE MARGIN PER DAY PER GASOLINE UNIT	GASOLINE MARGIN PER GALLON	PERCENT OF SALES CONTRIBUTED BY GASOLINE	PERCENT OF MARGIN CONTRIBUTED BY GASOLINE
1	Casey's	586	214,040,300	204,432	1,047	$120.61	11.52 cents	N/A	N/A
2	Circle K	2,433	904,300,000	861,470	1,049	N/A	N/A	31.5%	N/A
3	Southland	3,594	1,787,800,000	1,242,468	1,439	135.26	9.4 cents	23.3%	8.1%
4	Sunshine Jr.	317	83,900,000	115,388	727	N/A	N/A	47.0%	N/A
5	Munford	448	400,000,000	165,074	2,423	N/A	N/A	N/A	N/A
6	Silcorp	200	91,826,190	70,434	1,304	N/A	N/A	13.2%	N/A
7	Dairy Mart	415	86,000,000	79,751	1,078	93.48	8.6 cents	14.5%	5.6%
8	National Convenience	723	425,700,000	262,075	1,624	125.07	7.7 cents	37.8%	14.7%
	Total	8,716	3,993,566,490	3,001,092	1,330	N/A	N/A	26.6%	N/A

CIRCLE K GASOLINE

	YEAR ENDED 04/30/81	YEAR ENDED 04/30/82	YEAR ENDED 04/30/83	YEAR ENDED 04/30/84	YEAR ENDED 04/30/85	YEAR ENDED 04/30/86	YEAR ENDED 04/30/87
Total Gasoline Sales	$227,100,000	$283,400,000	$287,300,000	$382,200,000	$592,121,720	$742,900,000	$731,200,000
Total Gallons Sold	192,500,000	230,700,000	255,200,000	346,700,000	546,200,000	704,900,000	904,300,000
Number of Gas Units	753	780	798	1,463	1,719	2,293	2,433
Gas Operating Days	269,904	279,759	287,976	378,731	580,587	739,845	861,470
Average Gallons Sold per Unit per Day	713	824	886	915	940	953	1,049
Average Gallons Sold per Unit per Month	21,687	25,063	26,580	27,450	28,200	28,590	31,470
Average Margin per Gallon of Gasoline Sold			6.3 cents	6.8 cents	N/A	N/A	N/A
Total Gasoline Gross Margin			$16,077,600	$23,575,600	N/A	N/A	N/A
Gasoline Margin as a % of Total Company Margin			9.26%	9.50%	N/A	N/A	N/A
Gasoline Gallonage Growth						29%	28%
Gasoline Margin Growth for the year						N/A	N/A

NATIONAL CONVENIENCE STORES GASOLINE

	YEAR ENDED 06/30/81	YEAR ENDED 06/30/82	YEAR ENDED 06/30/83	YEAR ENDED 06/30/84	YEAR ENDED 06/30/85	YEAR ENDED 06/30/86	YEAR ENDED 06/30/87
Total Gasoline Sales	$178,300,000	$255,470,000*	$255,088,000	$344,841,800	$414,343,504*	$425,999,690	$313,000,000
Total Gallons Sold	182,200,000	216,500,000	231,600,000	310,000,000	385,100,000	421,200,000	425,700,000
Number of Gas Units	478	585	695	775	824	713	723
Gas Operating Days	168,168	193,944	233,545	269,010	291,793	280,447	262,075
Average Gallons Sold per Unit per Day	1,083	1,116	991	1,152	1,319	1,501	1,624
Average Gallons Sold per Unit per Month	32,941	33,945	29,730	34,560	39,570	45,030	48,720
Margin per Gallon Sold	7.2 cents	7.3 cents	6.2 cents	6.7 cents	8.0 cents	9.1 cents	7.7 cents
Total Gas Margin	$13,118,400	$15,804,500	$14,359,200	$20,770,000	$30,808,000	$38,329,200	$32,778,900
Gas Margin per Unit per Day	$78.00	$81.47	$61.48	$77.18	$105.58	$136.67	$125.07
Gasoline Gross Profit Dollars per Day divided by Total NCS Store Operating Days			$40.68	$54.22	$76.35	$95.11	$94.13
Gasoline Margin as a percent of Total Company Margin			7.95%	9.39%	12.62%	15.66%	14.67%

*37,100,000 gallons of gasoline were sold on a commission-only basis. We have increased the NCS gasoline sales as shown in the report at the rate of 105.39 (Circle K's average price per gallon) cents per gallon, or $39,099,690 to arrive at total gasoline dollar sales.

7-ELEVEN GASOLINE DATA

	YEAR ENDED 12/31/80	YEAR ENDED 12/31/81	YEAR ENDED 12/31/82	YEAR ENDED 12/31/83	YEAR ENDED 12/31/84	YEAR ENDED 12/31/85	YEAR ENDED* 12/31/86
Total Gasoline Sales	$912,900,000	$1,195,400,000	$1,341,500,000	$1,516,600,000	$1,594,400,000	$1,778,000,000	$1,500,858,100
Total Gallons Sold	792,900,000	956,000,000	1,156,000,000	1,361,200,000	1,454,400,000	1,602,900,000	1,787,800,000
Gas Operating Days	796,599	869,112	975,125	1,064,615	1,130,940	1,165,425	1,242,468
Average Gallons sold per Unit per Day	995	1,100	1,185	1,279	1,286	1,375	1,439
Average Gallons Sold per Unit per Month	30,347	33,458	35,550	38,370	38,580	41,250	43,170
Gross Profit per Gallon			6.2 cents	5.9 cents	7.0 cents	7.4 cents	9.4 cents
Gross Profit from Gasoline			$72,100,000	$80,500,000	$102,200,000	$119,200,000	$168,053,000
Gross Profit Dollars per Day per Gasoline Unit			$73.93	$75.61	$90.37	$102.38	$135.25
Gasoline Gross Profit Dollars per Day divided by total 7-Eleven Store operating days			$27.88	$30.49	$37.80	$43.56	$60.62
Average Retail Price per Gallon Sold					$1.096	$1.109	$.839

*Southland sold 2,048,800,000 gallons of gasoline in 1986 through their convenience store segment. We have used the 1985 average gasoline sales for the 163 Quik Marts (1,600,000 gallons per unit) and have thus eliminated 261 million gallons from their 7-Eleven gasoline sales to arrive at 1986 7-Eleven averages.

7-ELEVEN GASOLINE MARGIN

Assuming 1,787,800,000 gallons sold per year

MARGIN PER GALLON	TOTAL GAS MARGIN	MARGIN PER UNIT AT 1.439 GALLONS PER DAY
10¢	$178,780,000	$143.90
9	160,902,000	129.51
8	143,024,000	115.12
7	125,146,000	100.73
6	107,220,000	86.34
5	89,390,000	71.95
4	71,512,000	57.56
3	53,634,000	43.17
2	35,756,000	28.78
1	17,878,000	14.39

The annual difference of 1 cent a gallon affects 7-Eleven gas margin and profits by $17,878,000.

CASEY'S GASOLINE

	1983	1984	1985	1986	1987
Number of Gallons Sold	68,564,947	80,534,449	97,411,093	115,525,914	130,404,151
Average Retail per Gallon	$1.18	$1.17	$1.10	$1.07	$.81
Total Retail Sales	$81,099,067	$94,582,596	$107,198,869	$123,813,989	$105,849,166
Average Number of Gallons Sold per Company Store	444,197	447,889	444,494	428,198	394,445
Average Gross Profit Margin per Gallon	7.37¢	7.98¢	9.25¢	10.60¢	11.52¢
Average Gallons Sold per Day per Store	1,217	1,223	1,218	1,127	1,047
Gasoline Margin Per Day Per Gasoline Unit	$90	$98	$113	$119	$121
Total Casey's Gasoline Days—All Stores	130,651	146,400	165,865	185,384	204,432
Total Casey's Gallonage if all stores sold the same amount of gasoline as the Company Stores shown above	159,002,260	179,047,200	202,023,570	208,927,760	214,040,300
Total Casey's Retail Gasoline Sales computed on the basis of the above figures	$187,622,660	$209,485,220	$222,225,920	$223,552,700	$173,372,640

BEWARE: OIL STATISTICS

There are no reliable figures on the oil business. We've looked at a lot of them and we've talked to people who compute, tabulate, massage, guess, and borrow numbers. No set of numbers appears completely reliable or really agrees with numbers published by other sources. The business is so big and complicated that no one keeps figures the same way. We offer the following rule: Don't believe any statistic unless you make it up yourself.

The figures on the following pages should be sufficient to show the direction of the tide in the gasoline business. Some of the statistics come from the government. We've compiled others from the annual reports of major oil companies. Most oil company figures are fairly comparable since the companies use the same coterie of accounting firms.

UNITED STATES GASOLINE PRODUCT SALES AND SHARE OF MARKET

RANKED AS REPORTED IN THE ANNUAL REPORT

COMPANY	THOUSANDS OF BARRELS PER DAY	GALLONS SOLD PER DAY (THOUSANDS)	GALLONS SOLD PER YEAR (MILLIONS)	% MARKET SHARE IN 107 BILLION GALLON MARKET
1 Shell	620	26,040,000	9,504,600	8.90%
2 Chevron	594	24,948,000	9,106,020	8.53%
3 Texaco	570	23,940,000	8,738,100	8.18%
4 Exxon	549	23,058,000	8,416,170	7.88%
5 Amoco	523	21,966,000	8,017,590	7.50%
6 Mobil	486	20,412,000	7,450,380	6.98%
7 SOHIO	356	14,952,000	5,457,480	5.12%
8 Marathon	288	12,096,000	4,415,040	4.13%
9 Sun	277	11,634,000	4,235,095	3.97%
10 Union	260	10,920,000	3,985,800	3.73%
11 Phillips	243	10,206,000	3,725,190	3.49%
12 ARCO	187	7,854,000	2,866,710	2.68%
Total for Schedule	4,953	208,026,000	75,918,175	71.09%

MOTOR FUEL HIGHWAY CONSUMPTION

Comprises all fuels (gasoline, diesel and other fuels) used for propulsion of vehicles under state motor fuel laws.
Excludes federal purchases for military use.

YEAR	TOTAL CONSUMPTION IN BILLIONS OF GALLONS	AVERAGE ANNUAL PERCENT CHANGE
1960	57.9	4.0[1]
1965	71.1	4.2
1970	92.3	5.4
1972	105.1	6.7
1973	110.5	6.2
1974	106.3	-3.8
1975	109.0	2.5
1976	115.7	6.2
1977	119.6	3.4
1978	125.1	4.6
1979	122.1	-2.4
1980	116.0	-4.9
1981	115.2	-.6
1982	112.3	-2.3
1983	113.9	1.4
1984	117.6	3.2
1985	122.4	4.1
1986	125.2	2.3

[1] Change from 1955

TOTAL GASOLINE CONSUMPTION IN BILLIONS OF GALLONS

YEAR	HIGHWAY	NON-HIGHWAY	TOTAL GASOLINE USE	AVERAGE ANNUAL PERCENT CHANGE
1978	112.2	3.6	115.8	—
1979	108.1	3.7	111.8	-3.5%
1980	101.2	3.6	104.8	-6.3%
1981	99.6	3.5	103.1	-1.6%
1982	98.5	3.3	101.8	-1.3%
1983	99.4	3.2	102.6	.8%
1984	101.4	3.9	105.4	2.7%
1985	103.6	4.0	107.6	2.2%
1986	106.8	3.3	110.1	2.3%

Source: U.S. Federal Highway Administration, Highway Statistics Annual.

SUMMARY OF AVERAGE FUEL ECONOMY PERFORMANCE NEW PASSENGER AUTOMOBILES (MILES PER GALLON)

	MODEL YEAR 1978	MODEL YEAR 1979	MODEL YEAR 1980	MODEL YEAR 1981	MODEL YEAR 1982	MODEL YEAR 1983	MODEL YEAR 1984	MODEL YEAR 1985	MODEL YEAR 1986	MODEL YEAR 1987
Passenger Cars:										
New U.S.-made Averages	18.7	19.3	21.9	23.5	24.5	24.2	25.3	26.1	26.6	26.7
New Imported Car Averages	27.3	26.1	28.6	30.6	30.7	31.8	31.2	30.8	31.5	31.0
New Cars Combined Averages	19.9	20.3	23.5	25.2	26.1	26.0	26.5	27.3	27.9	28.2
Light Trucks:										
New U.S.-made Averages	N/A	17.7	16.8	18.3	19.2	19.6	19.3	19.7	20.0	20.4
New Imported Averages	N/A	20.8	24.4	27.4	27.0	27.5	26.8	26.4	26.1	25.3
New Combined Averages	N/A	18.2	18.5	20.1	20.6	20.8	20.5	20.6	21.4	21.6
Combined New Car and Light Truck Averages	N/A	20.1	22.5	24.1	24.8	24.6	24.8	25.2	25.7	26.0

Source: U.S. Department of Transportation.

TOTAL MOTOR VEHICLES, MOTOR VEHICLE REGISTRATIONS, AND NEW CAR SALES

YEAR	TOTAL MOTOR VEHICLES	TOTAL U.S. NEW AUTOMOBILE SALES INCLUDING IMPORTS	TOTAL AUTOMOBILES PRIVATE, PUBLIC AND COMMERCIAL	NET ANNUAL INCREASE IN TOTAL AUTOMOBILE REGISTRATION	AVERAGE ANNUAL PERCENT INCREASE IN REGISTRATION
1950	49,200,000		40,400,000		7.4%
1960	73,900,000		61,700,000		3.3%
1970	108,400,000		89,200,000		3.2%
1975	132,900,000		106,700,000		2.3%
1976	138,500,000		110,400,000	3,700,000	4.2%
1977	142,400,000	11,183,412	112,300,000	1,900,000	2.8%
1978	148,800,000	11,314,079	116,600,000	4,300,000	4.5%
1979	154,118,099	10,673,435	120,247,990	3,647,990	3.6%
1980	155,889,692	8,979,194	121,723,650	1,475,660	1.1%
1981	158,456,511	8,536,758	123,461,507	1,757,857	1.6%
1982	159,449,166	7,980,800	123,746,128	284,621	0.2%
1983	163,861,169	8,924,186	126,138,236	2,392,108	1.9%
1984	166,497,670	10,393,230	127,866,900	1,728,664	1.4%
1985	171,688,678	11,045,784	132,097,525	4,230,625	3.3%
1986	176,191,339	11,461,092	135,431,112	3,333,587	2.5%

Source: Registrations — U.S. Federal Highway Administration Statistics.
Figures from 1978 and before from Federal Highway Administration, Highway Statistics as reported in the Statistical Abstract of the United States, 1980.

U.S. Petroleum Supply

Note: Unless otherwise referenced, all data reported in this article are from Energy Information Administration publications: *Annual Energy Review 1985*, DOE/EIA-0384(85); and *Petroleum Supply Annual 1986*, DOE/EIA-0340 (86/1) and predecessor reports.

Overview

The third major price shock in the past 15 years hit the petroleum industry during 1986. Average free on board (f.o.b.) crude oil import prices plunged 60 percent during the first 7 months of the year. In contrast to the price hikes of 1974 and 1979-1981, the precipitous drop in 1986 benefitted consumers, and at the same time, brought severe hardships to upstream (exploration and production) elements of the petroleum industry.

Within the United States, consumers enjoyed the lowest petroleum prices in nearly a decade. Average retail prices for motor gasoline dropped from 119.6 cents per gallon in 1985 to 93.1 cents per gallon in 1986.[1] By July of 1986, electric utilities could purchase residual fuel oil for less than half the 1985 average price of 61.0 cents per gallon[2] and for less than natural gas; substitution of residual fuel oil for natural gas by electric utilities boosted residual fuel oil use for the first time since 1977.

Upstream segments of the U.S. petroleum industry (geophysics, engineering, drilling, etc.) suffered severely as petroleum revenues plummeted along with crude oil prices. Net incomes of leading U.S. oil companies had already been declining since 1980[3] because of the effects of shrinking demand and crude oil prices. The large drop in revenues forced many U.S. companies to make deep cuts in their operations; some closed down completely or merged with other companies. Well completions dropped by 46 percent in 1986, indicating the severity of capital spending reductions during the year.

The unprecedented crude oil price drop in 1986 and general economic expansion, contributed to an increase in petroleum demand; it was held in check to some extent by conservation efforts already in place, mild winter weather, and weak industrial demand. (Demand is measured as "Product Supplied" in the *Petroleum Supply Annual*, and the term is used interchangeably with the term "consumption" throughout this text.)

Increased demand was met by expanded imports of crude oil, while indigenous production of crude oil and natural gas liquids, the principal source of U.S. petroleum supply, declined sharply during the year. More than 23,000 producing wells were shut in[4] because the cost of operation exceeded the revenue they could generate at the crude oil prices of 1986. The average level of production in 1986 declined by 0.3 million barrels per day from the 1985 level. However, the 0.8 million barrel-per-day decline in production from January through December of 1986 may be a better indicator of the impact of depressed crude oil prices on U.S. producers.

The decrease in domestic production during 1986 did not have a serious effect on current U.S. petroleum supply because abundant inexpensive oil was available on the international market. However, the reduction of exploration and development activity during 1986 and the prevailing price instability which threatens to impede a return to higher levels of upstream activity could lead to a longer term reduction in domestic production. This, in turn, could lead to a greater degree of foreign dependence.

Concerns about a return to the high dependence on foreign oil, and especially OPEC oil, that the United States experienced in the late 1970's have been raised by the simultaneous decline in exploration and production activity and increase in imports.

The additional foreign crude oil replaced 0.3 million barrels per day of domestic production; it also helped satisfy an additional 0.6 million barrels per day of price-induced demand growth and allowed an increase of 0.1 million barrels per day in low-cost product stocks. The imported crude oil allowed refineries, functioning at a relatively low capacity utilization rate of about 78 percent in 1985, to increase their capacity operating levels to a more efficient 83 percent rate during 1986.

In addition to industry needs, nearly 0.05 million barrels per day of crude oil imports went into the Strategic Petroleum Reserve (SPR).

"Netback" and discount pricing arrangements enabled OPEC to capture a larger share of the U.S. crude oil import market in 1986 than it had in 1985. OPEC nations supplied about 85 percent of U.S. crude oil imports in 1977. This dropped to 41 percent by 1985 before climbing to about 50 percent in 1986. Reduced reliance on OPEC occurred largely because of declining demand but also because of the increasing availability of non-OPEC oil. Most of the non-OPEC suppliers are Western Hemisphere producers.

In recent years, the U.S. petroleum industry has functioned with minimum product inventory and adequate crude oil stocks. This strategy carried over into 1986 despite the opportunities to build a stock surplus with very low acquisition and carrying costs. Industry crude oil stocks increased by 10 million barrels, while product stocks showed a gain of 45 million barrels. Product stock increases can be attributed in part to overproduction of some products by more heavily utilized U.S. refineries.

U.S. refineries had been distilling crude oil at relatively low capacity utilization rates averaging about 73 percent during the 6-year period from 1980 through 1985. Many refiners regard utilization rates between 85 and 90 percent to be optimum levels of operation. The crude oil price competition of 1986 boosted U.S. demand and afforded U.S. refiners an opportunity to boost utilization rates with low-cost crude oil.

The most significant petroleum supply events of 1986 were the steep decline in crude oil prices and the adverse impact this had on the upstream sector of the U.S. petroleum industry. The price uncertainty which followed will undoubtedly affect short-term planning and capital investment in upstream activity and could lead to increased foreign dependence.

Product Demand

U.S. petroleum product demand expanded from World War II until the Arab oil embargo of 1973. Thereafter, demand became cyclic; that is, peak demand levels in 1973 and 1978 were followed by lows in 1975 and 1983, respectively. At the present time U.S. demand is in the upturn of a possible third cycle that began in 1984.

Principal factors that influence the amount of petroleum consumption and contribute to its recent cyclical nature include general economic conditions, adequacy of petroleum supply, and price volatility.

Historic Trends

From the mid-1940's to 1973, petroleum supplies were plentiful and prices remained relatively low. Consumption of petroleum products increased steadily and without restriction. In 1973, OPEC restricted international supplies, and foreign crude oil prices tripled by the following year. The shock of this price increase, combined with an economic recession (1973-1975), reduced consumption during 1974 and 1975. A turnaround occurred in 1976, and demand grew through 1978 despite relatively high prices; a substantial increase in general economic activity occurred during this period and prices were stabilized somewhat by increasing petroleum availability.

During 1978, U.S. consumers used petroleum products at the rate of 18.8 million barrels per day; the highest level ever. By 1979, consumption began a long-term decline which extended through 1983 (Figure FE1). The downturn resulted from price-induced conservation efforts of individuals as well as government mandated conservation programs and general economic downturns in 1980 and 1982. As economic conditions improved in 1983 and petroleum prices continued the steep descent that began a year earlier, the long-term drop in consumption slowed.

The 5-year drop in demand reversed in 1984 as consumption increased by 0.5 million barrels per day. The turnaround can be attributed to general economic expansion and a continued decline in petroleum prices. The expanded demand levels of 1984 remained the same in 1985, influenced both by the downward force of broad conservation programs and the upward pressure of declining prices and abundant supply.

Current Demand

Led by strong growth in consumption of residual fuel oil and motor gasoline, total petroleum product demand reached 16.3 million barrels per day in 1986. The increase in total petroleum demand was stimulated by the continued general economic expansion and the sharp decline in crude oil prices. However, a moderating effect was exerted by mild winter weather, increased efficiency in home-heating and vehicle operation, and by weak industrial demand.

Motor Gasoline

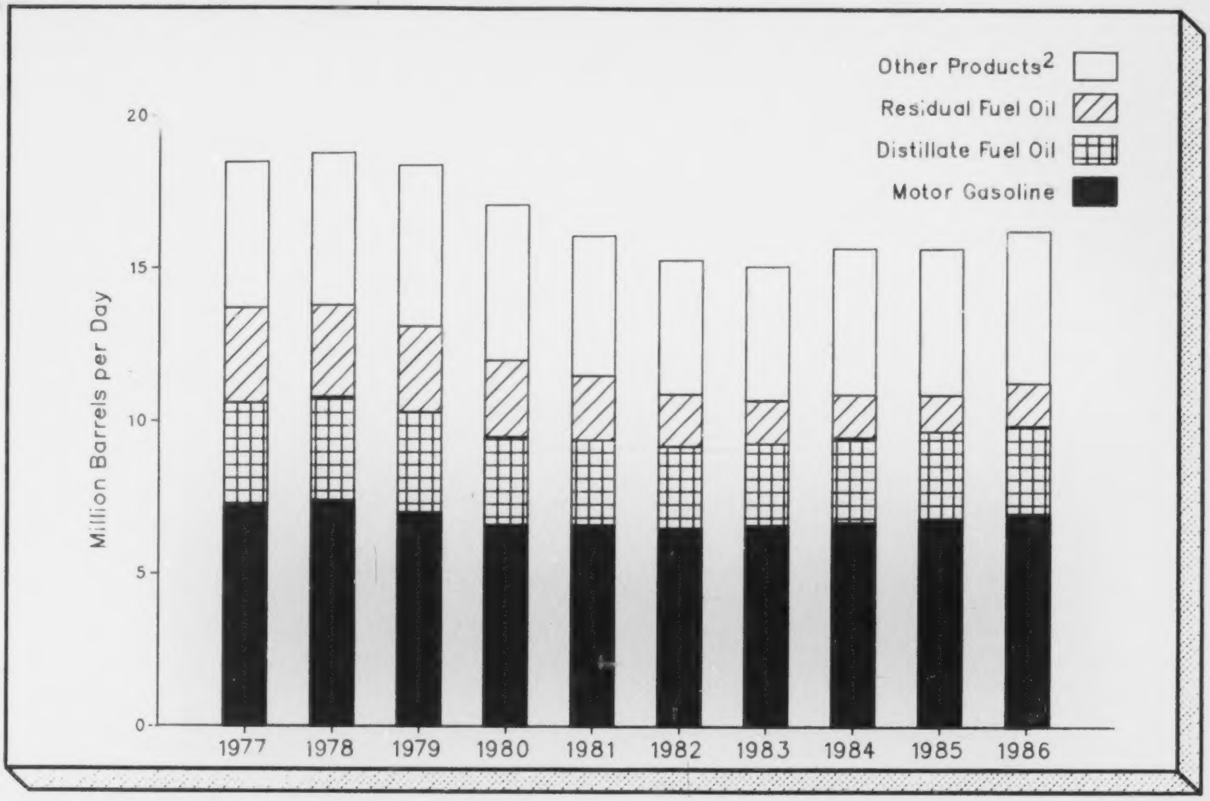
During 1986, motor gasoline demand continued the upward trend begun in 1983, reaching an average of 7.0 million barrels per day. This was nearly 3 percent above the 1985 level, and the largest year-to-year increase since the 4-year climb began (Table FE1). However, the 1986 demand level remained well below the 1978 peak of 7.4 million barrels per day.

Four primary factors have a significant impact on gasoline demand. As the average retail gasoline price decreases, the number of vehicle miles traveled increases and gasoline demand moves upward. This upward pressure is offset by improvements in the fuel efficiency of the automotive fleet (measured as miles traveled per gallon of gasoline used). Economic activity also influences gasoline demand. High levels of gross national product and of disposable personal income stimulate highway travel, resulting in higher gasoline consumption.

The number of vehicle miles traveled in 1986 increased 4.7 percent over 1985. This increase reflected lower retail prices throughout the year relative to 1985, that tended to reduce gasoline conservation efforts. The increase in travel can also be attributed partially to a 2.9 percent rise in real disposable income over 1985 coupled with moderate growth (2.5 percent rise) in the gross national product.[5]

Automobile fuel efficiency is influenced by new car sales trends and retirements of older vehicles. Since 1978, overall U.S. passenger car efficiency has increased 27.3 percent with new car efficiency rising 35.1 percent over the same period.[6] The average age of automobiles in use during 1978 was 5.7 years. By 1985 the average age had risen to 6.9 years.[6] While cars are being kept longer, efficiency improvements in new cars have continued to increase the average efficiency of the total fleet.

Figure FE1. Petroleum Demand by Product Type, 1977-1986[1]



[1] Product demand is measured as product supplied.

[2] Other products include liquefied petroleum gases, pentanes plus, crude oil as fuel, unfinished oils, gasoline blending components, jet fuel, kerosene, petrochemical feedstocks, special naphthas, lubricants, waxes, petroleum coke, asphalt, road oil, still gas, and miscellaneous products.

Source: Energy Information Administration, *Petroleum Supply Annual, 1986,* DOE/EIA-0340(86)/1, Table 3 and predecessor reports.

Refinery Capacity and Utilization

Operable crude oil distillation capacity is sometimes used as a general measure of the U.S. petroleum industry's ability to satisfy petroleum product demand using domestic processing facilities. Over the past three and one-half decades, U.S. refinery distillation capacity has increased or declined in parallel with demand, sometimes exceeding but mostly trailing national consumption levels.

A measure of U.S. refiners' ability to meet short-term changes in domestic petroleum product requirements is the rate at which operable distillation capacity is used. This rate of utilization can fluctuate widely as changes in petroleum-product demand and responsive refinery operational levels occur more rapidly than accommodating changes in distillation capacity can take place.

The distillation process by itself does not yield enough motor gasoline to meet U.S. demand. To obtain maximum levels of motor gasoline from each barrel of crude oil, downstream conversion and octane-enhancement processes must be applied to certain distilled fractions (i.e., middle distillates). A maximum motor gasoline production level for U.S. refineries has been estimated by the National Petroleum Council (NPC) to be about 6.8 million barrels per day on an annual average by 1988.[27] Also, according to NPC estimates, maximum capability for portions of the year may exceed this level. During 1986, U.S. production of motor gasoline reached 6.75 million barrels per day.

Operable crude oil distillation capacity trailed petroleum product demand throughout most of the 1960's and 1970's. The disparity was greatest in 1973 when product demand reached a level 3.67 million barrels per day higher than distillation capacity. This broad gap coincides with the highest U.S. petroleum product import level in history, the only time when U.S. gross imports of petroleum products exceeded three million barrels per day.

1986 In Review

Refiners developed additional distillation capacity in an attempt to match increases in demand. While demand turned downward in 1979, distillation capacity continued growing and peaked in 1981, before refiners began closing down excessive distillation capacity. Distillation capacity increased slightly in 1986 for the first time since 1981.

Many refiners indicate that their facilities function most efficiently and profitably at utilization rates of 85 to 90 percent. Through the 1950's and 1960's, U.S. refineries had an average utilization rate of 91 percent. During the 1970's, the average rate was about 89 percent. However, from 1980 through 1985, the average utilization rate dropped to about 73 percent, well under the preferred range.

During 1986 operable distillation capacity increased to 15.6 million barrels per day. At the same time, petroleum product demand increased to 16.3 million barrels per day. Thus, by the end of 1986, product demand again exceeded U.S. distillation capacity, as it did for many years prior to the 1980's.

In response to "netback" pricing arrangements and widely available low-cost crude oil and growing product demand during 1986, U.S. refiners stepped up crude oil input by 5.9 percent over the previous year to 12.7 million barrels per day. This was the highest level of refinery input since 1980. Distillation capacity utilization rose from a relatively low and inefficient level of less than 78 percent in 1985 to a more efficient level of 83 percent in 1986.

Although U.S. refiners increased their 1986 processing activity substantially, refinery yield patterns remained essentially the same as in 1985. Domestic refinery activity continued its primary focus on satisfying U.S. demand for motor gasoline, distillate, and kerosene jet fuel. Motor gasoline accounted for nearly one-half of U.S. refinery output; distillate fuel oils followed with nearly one-fifth of domestic refinery output, and kerosene jet fuels represented nearly 8 percent. Stepped-up refinery output met most of the increased demand for these products. However, the residual fuel oil proportion of total U.S. refinery output increased less than 1 percent over 1985; increased demand for residual fuel oils was satisfied largely from increased imports.

During 1986, the free world experienced its third major crude oil price shock within the past 15 years. The stage was set for the surprising events of 1986 by a declining consumer market, which began shrinking in 1980, as crude oil prices approached the unprecedented levels of 1981. By 1985, declining demand had caused worldwide production to drop 9.4 million barrels per day below the 1979 peak level; OPEC output had dropped 14.9 million barrels per day over that same period.

In an attempt to recover some of its lost market and oil-based revenues, in late 1985, OPEC began offering special pricing arrangements and discount prices. Non-OPEC producers followed OPEC's lead in offering discount prices to protect their market shares, and the ensuing international price competition led to a drop of 60 percent in f.o.b. crude oil import prices by mid-1986.

Consumers benefitted directly from the low cost of oil and indirectly from the lower rate of economic inflation that was in part related to lower oil prices. However, producers' revenues were substantially reduced.

Many upstream elements engaged in exploration, well servicing, and production activities reduced activity or ceased operations completely. By the end of 1986, U.S. liquid hydrocarbon production had dropped 0.8 million barrels per day. Well completions, which affect future U.S. proved reserve and production levels, dropped by 46 percent.

Lower petroleum product prices and general economic expansion encouraged greater use of petroleum products. However, U.S. petroleum consumption increases were moderated by conservation, efficiency improvements and weak industrial demand.

Increased product demand in combination with the loss of some marginal indigenous production was offset by increased use of foreign oil. U.S. refiners increased refinery utilization to more efficient operating levels, and took advantage of "netback" crude oil pricing arrangements that prevailed during the year.

As the year ended, prices had recovered slightly from their low levels of July, but price stability had not been achieved despite OPEC efforts to establish lower production levels and stable prices. Uncertainty remained concerning the future direction of U.S. indigenous production and dependence on foreign oil.

PASSENGER CAR EFFICIENCY

EXCERPT FROM ENERGY INFORMATION/MONTHLY ENERGY REVIEW, JULY 1987

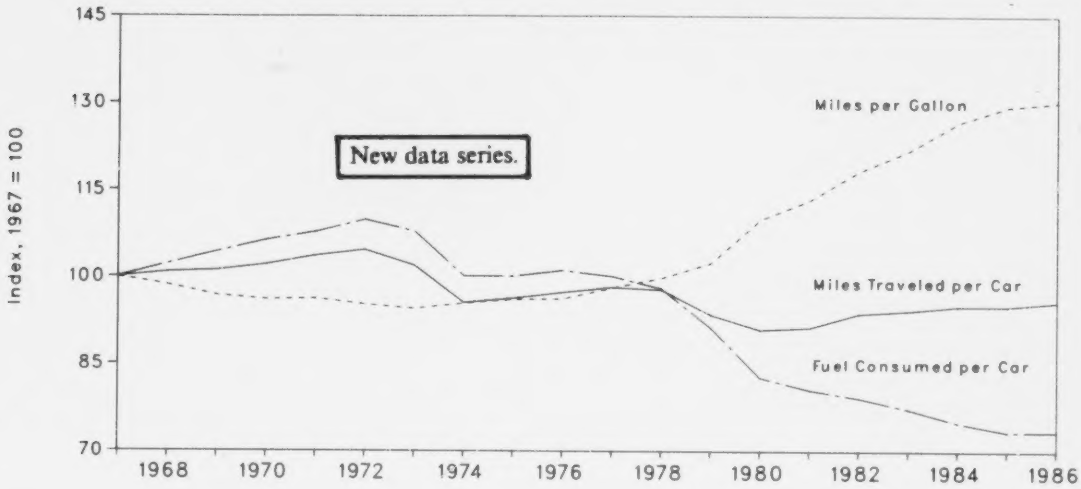


Table 1.10 Passenger Car Efficiency

	Average Fuel Consumed per Car				Average Miles Traveled per Car				Average Miles Traveled per Gallon of Fuel Consumed			
	Old		New		Old		New		Old		New	
	Gallons	Index	Gallons	Index	Miles	Index	Miles	Index	Miles	Index	Miles	Index
1967	684	100.0	715	100.0	9,531	100.0	10,060	100.0	13.93	100.0	14.07	100.0
1968	696	102.0	731	102.2	9,627	101.0	10,144	100.8	13.79	99.0	13.87	98.6
1969	718	105.0	746	104.3	9,782	102.6	10,156	101.0	13.63	97.8	13.62	96.8
1970	735	107.5	760	106.3	9,978	104.7	10,272	102.1	13.57	97.4	13.52	96.1
1971	746	109.1	770	107.7	10,121	106.2	10,422	103.6	13.57	97.4	13.54	96.2
1972	755	110.4	785	109.8	10,184	106.9	10,521	104.6	13.49	96.8	13.40	95.2
1973	763	111.5	771	107.8	9,992	104.8	10,256	101.9	13.10	94.0	13.30	94.5
1974	704	102.9	716	100.1	9,448	99.1	9,606	95.5	13.43	96.4	13.42	95.4
1975	712	104.1	716	100.1	9,634	101.1	9,690	96.3	13.53	97.1	13.52	96.1
1976	711	103.9	723	101.1	9,763	102.4	9,785	97.3	13.72	98.5	13.53	96.2
1977	706	103.2	716	100.1	9,839	103.2	9,879	98.2	13.94	100.1	13.80	98.1
1978	715	104.5	701	98.0	10,046	105.4	9,835	97.8	14.06	100.9	14.04	99.8
1979	664	97.1	653	91.3	9,485	99.5	9,403	93.5	14.29	102.6	14.41	102.4
1980	603	88.2	591	82.7	9,135	95.8	9,141	90.9	15.15	108.8	15.46	109.9
1981	579	84.6	576	80.6	9,002	94.4	9,186	91.3	15.54	111.6	15.94	113.3
1982	587	85.8	566	79.2	9,533	100.0	9,428	93.7	16.25	116.7	16.65	118.3
1983	578	84.5	553	77.3	9,654	101.3	9,475	94.2	16.70	119.9	17.14	121.8
1984	553	80.8	536	75.0	9,787	102.7	9,558	95.0	17.70	127.1	17.83	126.7
1985	549	80.3	525	73.4	9,827	103.1	9,560	95.0	17.90	128.5	18.20	129.4
1986[a]	—	—	525	73.4	—	—	9,625	95.7	—	—	18.32	130.2

[a]Preliminary data.

Note: Geographic coverage is the 50 States and the District of Columbia.

Sources: See end of section.

Data in this table were revised by the Department of Transportation, Federal Highway Administration. The new data series replace the previous series and incorporate improvements made possible by a more detailed data base of vehicle travel and by the use of a uniform estimating procedure for 1966-1985.

COMPARISON OF STATIONS OPERATED BY THE 12 MAJOR OIL COMPANIES
AS REPORTED IN THEIR ANNUAL REPORTS AND 10 K'S

COMPANY	1980 # OF STATIONS	1981 # OF STATIONS	1982 # OF STATIONS	1983 # OF STATIONS	1984 # OF STATIONS	1985 # OF STATIONS	1986 # OF STATIONS	INCREASE OR DECREASE	TOTAL INCREASE OR DECREASE SINCE 1980
1. Texaco	24,000	21,000	18,000	18,000	19,558	18,718*	18,939*	221	-5,061
2. Exxon	22,886	20,585	20,600	18,707	18,139	17,427*	14,468*	-2,959	-8,418
3. Amoco	21,300	20,100	17,800	17,800	15,700	15,100	12,400	-2,700	-8,900
4. Shell	15,400	13,700	13,300	12,100	11,000	11,200	10,900	-300	-4,500
5. ARCO	8,200	7,122	5,260	4,400	3,900	1,750	1,700	-50	-6,500
6. Mobil	17,425	16,564	16,216	15,403	13,862	13,310	12,735	-575	-4,690
7. Chevron	12,139	11,586	11,295	11,021	10,517	18,282	13,532	-4,750	1,393
8. Marathon	2,789	2,903	2,998	3,372	3,588	3,722	3,730	8	941
9. SOHIO	2,300	2,300	2,200	2,100	3,000	2,900	2,800	-100	500
10. Sun	9,231	8,736	7,665	6,700	7,348	6,807	6,534	-273	-2,697
11. Phillips	12,805	13,900	13,900	12,000	10,500	10,505*	10,669*	164	-2,136
12. Union	12,300	12,500	12,700	11,200	10,400	10,400	10,300	-100	-2,000
Totals	160,775	150,996	141,934	132,803	127,512	130,121	118,707	-11,414	-42,068

Source: Annual Reports of these companies.
These companies combined operate 26% less stations in 1986 than they did in 1980.
*Source NPN

AVERAGE GALLONAGE PER STATION

Assuming all gasoline sales reported by company were sold through the stations listed in annual report, and no outside gasoline was purchased for the stations reported.

COMPANY	1986 # OF STATIONS	TOTAL GALLONS SOLD PER YEAR (THOUSANDS)	AVERAGE GALLONS SOLD PER STATION PER YEAR	AVERAGE GALLONS SOLD PER STATION PER MONTH	AVERAGE GALLONS SOLD PER STATION PER DAY	INCREASE OR DECREASE FROM 1984
1. Texaco	18,939	8,738,100	461,381	38,448	1,264	51
2. Exxon	14,468	8,416,170	581,709	48,475	1,594	404
3. Amoco	12,400	8,017,590	646,576	53,881	1,771	485
4. Shell	10,900	9,504,600	871,981	72,665	2,388	567
5. ARCO	1,700	2,866,710	1,686,300	140,525	4,620	302
6. Mobil	12,735	7,450,380	585,031	48,752	1,603	433
7. Chevron	13,532	9,106,020	672,924	56,077	1,844	302
8. Marathon	3,730	4,415,040	1,180,491	98,374	3,234	121
9. SOHIO	2,800	5,457,480	1,949,100	162,425	5,340	1,742
10. Sun	6,534	4,235,095	648,162	54,013	1,776	348
11. Phillips	10,669	3,725,190	349,160	29,096	957	85
12. Union	10,300	3,985,800	386,970	32,247	1,060	256
Total for Top 12 Companies	*118,707*	*75,918,175*	*639,543*	*53,295*	*1,777*	*303*

OIL COMPANIES RANKED BY AVERAGE GALLONS PER STATION PER DAY

Assuming all gasoline sales reported by company were sold through the stations listed in annual report, and no outside gasoline was purchased for the stations reported.

COMPANY	AVERAGE GALLONS SOLD PER STATION PER DAY
1. SOHIO	5,340
2. ARCO	4,620
3. Marathon	3,234
4. Shell	2,388
5. Chevron	1,844
6. Sun	1,776
7. Amoco	1,771
8. Mobil	1,603
9. Exxon	1,594
10. Texaco	1,254
11. Union	1,060
12. Phillips	957
Average	1,777

COMPARISON OF AVERAGE RETURN ON EQUITY OF THE 12 OIL COMPANIES THAT PRODUCE 71% OF THE GASOLINE REFINED IN THE UNITED STATES

COMPANY	AVG. RETURN ON EQUITY IN 1980	AVG. RETURN ON EQUITY IN 1981	AVG. RETURN ON EQUITY IN 1982	AVG. RETURN ON EQUITY IN 1983	AVG. RETURN ON EQUITY IN 1984	AVG. RETURN ON EQUITY IN 1985	AVG. RETURN ON EQUITY IN 1986	DIFFERENCE 1986 VS. 1985	DIFFERENCE 1986 VS. 1980	% DECREASE RETURN ON EQUITY 1980 VS. 1986
1. Texaco	21.1%	17.6%	9.2%	8.6%	1.8%	9.2%	5.3%	-3.9%	-15.8%	-75%
2. Exxon	21.8%	17.8%	14.9%	17.2%	19.0%	16.8%	14.2%	-2.6%	-7.6%	-35%
3. Amoco	21.6%	19.2%	16.5%	15.7%	17.5%	16.2%	6.5%	-9.7%	-15.1%	-70%
4. Shell	22.0%	21.0%	17.4%	15.9%	15.6%	13.2%	6.2%	-7.0%	-15.0%	-68%
5. ARCO	24.4%	20.8%	18.1%	14.9%	13.4%	-2.6%	11.4%	14.0%	-13.0%	-53%
6. Mobil	23.9%	17.6%	9.4%	10.8%	9.2%	7.5%	9.6%	2.1%	-14.3%	-60%
7. Chevron	21.7%	20.0%	10.6%	11.6%	10.6%	10.2%	4.6%	-5.6%	-17.1%	-79%
8. Marathon	21.0%	16.6%	-5.6%	-20.7%	8.5%	7.5%	-31.2%	-38.7%	-52.2%	-249%
9. SOHIO	39.7%	31.0%	28.5%	19.7%	18.1%	3.8%	-4.6%	-8.4%	-44.3%	-112%
10. Sun	16.8%	21.5%	10.5%	8.7%	10.2%	10.0%	7.3%	-2.7%	-9.5%	-56%
11. Phillips	23.8%	16.9%	11.4%	12.1%	12.7%	14.7%	13.5%	-1.2%	-10.3%	-43%
12. Union	20.1%	20.8%	18.2%	12.6%	12.7%	8.9%	10.6%	1.7%	-9.5%	-47%

Source: Annual Reports of these companies.

12 MAJOR REFINERS REPRESENTING 71% OF THE NATIONAL GASOLINE MARKET
UNITED STATES GASOLINE PRODUCT SALES
THOUSANDS OF BARRELS DAILY

COMPANY	1980	1981	1982	1983	1984	1985	1986	INCREASE OR DECREASE	PERCENT INCREASE OR DECREASE
1 Texaco	435	404	388	421	565	560	570	10	2%
2 Exxon	558	489	492	505	514	539	549	10	2%
3 Amoco	504	474	477	469	481	510	523	13	3%
4 Shell	527	470	459	465	477	515	620	105	20%
5 ARCO	329	292	324	369	401	184	187	3	2%
6 Mobil	428	363	378	386	386	452	486	34	8%
7 Chevron	449	387	354	370	386	618	594	-24	-4%
8 Marathon—U.S.S.	—	—	241	245	266	265	288	23	9%
9 SOHIO	261	246	244	267	257	349	356	7	2%
10 Sun	289	256	275	263	250	272	277	5	2%
11 Phillips	214	209	216	212	218	239	243	4	2%
12 Union	253	218	213	227	232	243	260	17	7%
Total 12 Major Refiners	4247	3808	4061	4199	4433	4746	4953	207	4%

These 12 refiners sold 75,929,490,000 gallons of gasoline in 1986 or 71.1% of all the gasoline used in the United States in 1986.

A SUMMARY OF INFORMATION ON THE COMPANIES IN:

WHAT DO THE 12 LARGEST OIL COMPANIES HAVE TO SAY ABOUT GASOLINE MARKETING IN 1987

COMPANY	# OF STATIONS	# OF PAGES IN ANNUAL REPORT	PAGES DEVOTED TO GASOLINE MARKETING	PERCENTAGE OF COMPANY STOCK OWNED BY OFFICERS AND DIRECTORS	AVERAGE RETURN ON SHAREHOLDER'S EQUITY IN 1986
1. Texaco	18,939	44	1/5	N/A	5.3%
2. Exxon	14,468	46	2	1/10th of 1%	14.2%
3. Amoco	12,400	52	2-1/2	N/A	6.5%
4. Shell	10,900	52	4-1/2	N/A	6.2%
5. ARCO	1,700	64	1	N/A	11.4%
6. Mobil	12,735	48	1	77/100ths of 1%	9.6%
7. Chevron	13,532	60	2	Less than 1%	4.6%
8. Marathon	3,730	58	2	Less than 1%	-31.2%
9. SOHIO	2,800	66	2-1/2	Less than 1%	-4.6%
10. Sun	6,534	48	1	3.8%	7.3%
11. Phillips	10,669	52	1	N/A	13.5%
12. Union	10,300	56	2-1/2	Less than 1%	10.6%
Total	118,707	646	22-1/5		

REVIEW OF OPERATIONS

Car Wash
Products You Can Trust
Food Mart

TEXACO U.S.A.

During 1986, downstream operations in the United States reflected the impact of the Company's manufacturing modernization programs and operational efficiencies. These improvements resulted in higher sales volumes, greater utilization of Texaco's domestic refining capacity, and expanded trading activities.

Marketing

Texaco's highly successful *System 2000* retail program is now one of the most recognized images in gasoline retailing. Motor fuel volume sold through existing *System 2000* outlets averaged 155,300 gallons a month at year-end.

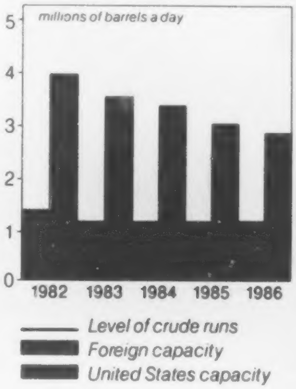
Texaco has established a large-scale food mart installation. At year-end, more than 700 of the Company's investment-type retail outlets featured food marts. These outlets offer the motorist the convenience of one-stop shopping, generate increased gasoline sales, and improve profitability.

Havoline Motor Oil sales in 1986 increased for the sixth consecutive year and resulted in a 9.9% share of market.

Refining and Marketing

Business Profile — Refining and Marketing	1985	1986
Earnings	millions of dollars	
United States	229	478
Foreign	643	1,474
Total	872	1,952
Average capital employed		
United States	2,547	2,697
Foreign	6,297	6,887
Total	8,844	9,584
Capital expenditures		
United States	624	501
Foreign	1,309	1,043
Total	1,933	1,544
Research and development costs	104	105
Return on average capital employed	percent	
United States	9.0	17.7
Foreign	10.2	21.4
Total	9.9	20.4
Petroleum product sales	thousands of barrels daily	
United States	1,123	1,106
Foreign	2,959	2,937
Total	4,082	4,043
Refinery crude oil runs		
United States	1,054	1,080
Foreign	1,849	1,952
Total	2,903	3,032

Refining capacity and level of crude runs



Lower crude costs, upturn in demand carried downstream earnings to new high. The sharp reduction in world crude oil prices was largely responsible for the record earnings performance in Exxon's refining and marketing business. Downstream results were also helped by productivity gains and the first significant upturn in petroleum consumption in seven years.

Until well into the third quarter, product margins were substantially improved as crude oil prices declined more rapidly than product prices. The sharpest gains were made in foreign markets, where the weakening of the U.S. dollar further reduced average local currency crude supply costs. But downstream operating margins eroded later in the year with rising crude costs, and by the fourth quarter were below prior year levels.

Lower prices helped product sales, particularly in the United States, with sales gains concentrated in motor gasoline. Sales volumes were relatively flat in Europe, where many governments increased excise taxes and lessened the effect of lower crude costs for consumers.

Higher earnings also reflected improved productivity in Exxon's downstream operations. For example, Exxon USA sold approximately the same volume of petroleum products as it did in 1985 with 6 percent less marketing manpower. Exxon Company, International affiliates reduced their total number of marketing terminals by 6 percent and increased average product throughput per terminal by over 10 percent, partly through the use of automated equipment.

EXXON CORPORATION

EXCERPT FROM THE ANNUAL REPORT OF EXXON CORPORATION, 12.31.86

Big upgrading projects went on-stream at Baytown and Rotterdam refineries. A three-year, $500 million project to upgrade the refinery at Baytown, Texas, was completed in October, seven months ahead of schedule. Processing units added include a FLEXICOKING unit, which uses a proprietary Exxon process for the conversion of heavy feedstocks to lighter products and fuel gas. Other additions include the world's largest vacuum pipestill, with a capacity of 80,000 barrels a day, and a Gofiner hydro-treating unit. The plant, which has a computerized process control system, can now process a wider range of lower-cost crudes with improved product quality and energy efficiency and has increased its capacity to make light, high-value products by some 25,000 barrels a day.

The Rotterdam upgrade, representing an $850 million project, also includes a FLEXICOKING unit, a vacuum pipestill, a Gofiner and a process control system. The project, which started up in August, involved changing a low-conversion refinery into a sophisticated high-conversion plant with greater flexibility in feedstock selection and increased (by 32,000 barrels a day) capacity to make light products which are in greater demand.

Because of these and other investments which have broadened the crude-running capability of its refineries, Exxon is better able to take advantage of favorable crude oil purchase and sale opportunities. For example, the company improved its net returns significantly in 1986 by selling large volumes of its high-quality, higher-priced North Sea crude oil to third parties and buying cheaper, harder-to-process crudes on the spot market to supply its refineries.

Exxon Shop at a service station near Houston sells food, beverages and other convenience items. The company continued to build Exxon Shops at some of its new or modernized U.S. stations in 1986.

Exxon continued restructuring of worldwide service station chain. Automation of U.S. stations extended. The continuing worldwide program to restructure and modernize the service station chain reduced the total number of stations selling Exxon brands by 4,000, to 43,000. At the same time, the fuel throughput of the average Exxon station increased by 12 percent.

Exxon USA installed electronic card readers in some 2,000 service stations nationwide to provide credit verification, data capture and data transmission for Exxon credit cards and selected bank credit cards and debit cards. The equipment was in use in half of the company's 4,130 owned or leased stations at year end, and will be installed in the rest in 1987. Exxon USA also made plans to test a combined Exxon credit/debit card in 1987.

Exxon's affiliate in the United Kingdom reduced office space and improved sales efficiency with an electronic mail and information system called ACS (for Administrative Computer System). ACS allows sales representatives like this Londoner to readily communicate with their offices through computer terminals installed in their homes.

XCL-12 and other gasoline additives introduced to clean fuel injection engines. Exxon USA introduced XCL-12, a new detergent additive developed by Exxon Research & Engineering and manufactured by Exxon Chemical which cleans fouled fuel injectors in engines being installed in a growing proportion of new cars. The additive is a fast-acting injector cleaner, and Exxon is the first company in the United States to include a rapid cleaning capability in both regular and premium grades of gasoline.

Imperial began marketing its new "No Trouble" gasoline with a new detergent additive, and similar gasolines were introduced by Exxon affiliates in most European markets and in Japan, Australia and Singapore.

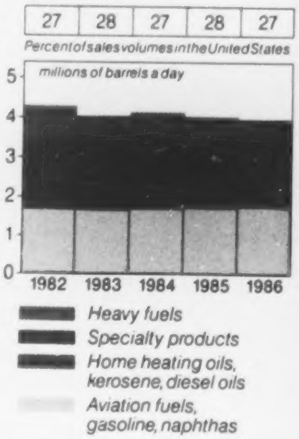
EXXON CORPORATION

EXCERPT FROM THE ANNUAL REPORT OF EXXON CORPORATION, 12.31.86

Exxon continued move to unleaded fuel. New motor oil lines marketed in U.S., Europe. The company ended the sale of leaded gasoline in most of the northeast United States, anticipating its planned phase-out of leaded fuels in other sections of the country. A middle grade of unleaded gasoline was introduced in northeast markets, and new names were adopted for all of Exxon USA's unleaded grades—Exxon Supreme (92 octane), the new Exxon Plus (89 octane) and Exxon Regular (87 octane). Exxon USA also began marketing its new Superflo line of passenger car motor oils, including Exxon Superflo Supreme Performance (which replaced Exxon Uniflo as the company's premium U.S. motor oil) and Exxon Superflo High Performance.

Already an industry leader in supplying unleaded fuel to European markets, Exxon was the first company to introduce unleaded gasoline in the U.K. market in 1986. Paramins additives developed by Exxon Chemical to improve the performance of automotive diesel fuel were used to upgrade Exxon fuel in several European countries. The company also introduced Esso Ultra Oil, a semi-synthetic super premium passenger car motor oil developed by Exxon Research for the European market. Esso Ultra Oil is widely distributed on the Continent and is marketed in the U.K. as Superlube EX2.

Petroleum product sales volumes



Danish refining and marketing business sold. Exxon sold its interest in petroleum operations in Denmark to Statoil, the Norwegian government oil company. Owned and managed by the Dansk Esso A/S affiliate, the business included a refinery at Kalundborg, four major oil terminals and 425 company and dealer-owned service stations. Exxon continues to market petrochemical products in Denmark through Esso Chemical A/S, a wholly owned affiliate which was not included in the sale.

EXCERPT FROM THE ANNUAL REPORT OF STANDARD OIL OF INDIANA (AMOCO), 12.31.86

Marketing—*The major goals for the marketing segment of our business are to provide high-quality, competitively priced petroleum products and related services, and to retain our rating as the nation's quality gasoline marketer and lead-free leader. Total domestic product sales increased 3 percent in 1986, while sales of Amoco's lead-free premium gasoline rose 17 percent. Improved operational efficiencies led to higher product margins compared with 1985. Amoco's share of the U.S. motorist gasoline market in those states where our gasoline is sold at retail increased to 13.3 percent, while our share in the total U.S. motorist gasoline market rose to 8.6 percent. Amoco's jet fuel sales to the government doubled in 1986.*

Amoco's direct-supplied service stations were again among the most efficient in the industry as gasoline volume per station rose 10 percent to an average of about 1.1 million gallons per year.

Amoco continued to strengthen its reputation as the lead-free leader and as the marketer offering motorists the highest-quality gasoline with the introduction of two new gasolines. In June, we introduced Amoco Ultimate Lead-Free Premium, a gasoline formulated to improve automobile performance and driveability and increase the power output of high-technology engines. Amoco Ultimate solves the automobile industry's port-fuel injector plugging problem and cleans the entire fuel-intake system.

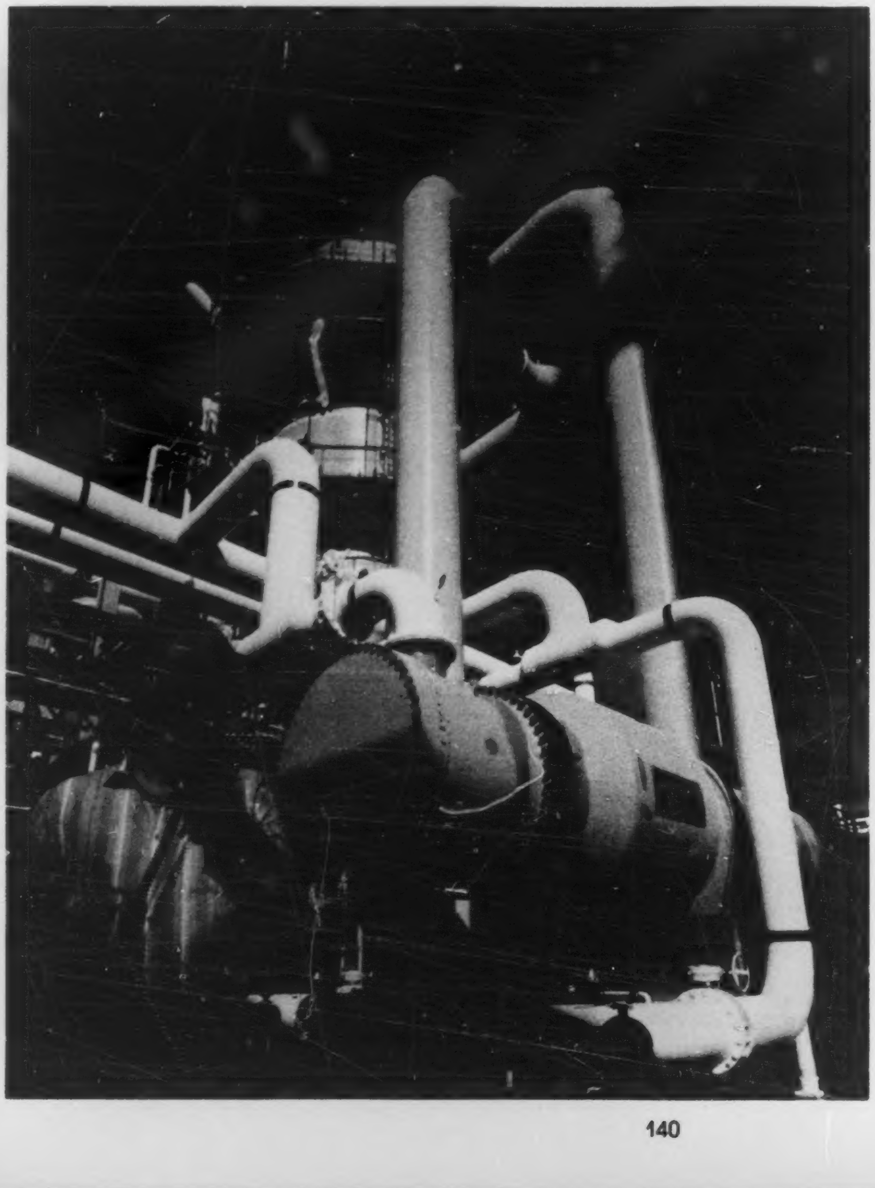
In November, we announced plans to market Amoco Silver, a new mid-grade, lead-free gasoline, throughout most of our marketing area by year-end 1987. During 1986, Amoco Silver replaced regular leaded gasoline at more than 1,700 Amoco service stations in seven states.

Our marketing research indicates that motorists want a variety of service station facilities, which Amoco intends to provide. To meet this demand, we built and acquired 115 additional high-volume pumpers during 1986 for customers who want fast, efficient, and convenient fueling outlets. We also increased to 750 the number of full-service Amoco stations that provide Certicare guaranteed auto repairs to appeal to motorists who want high-quality repairs.

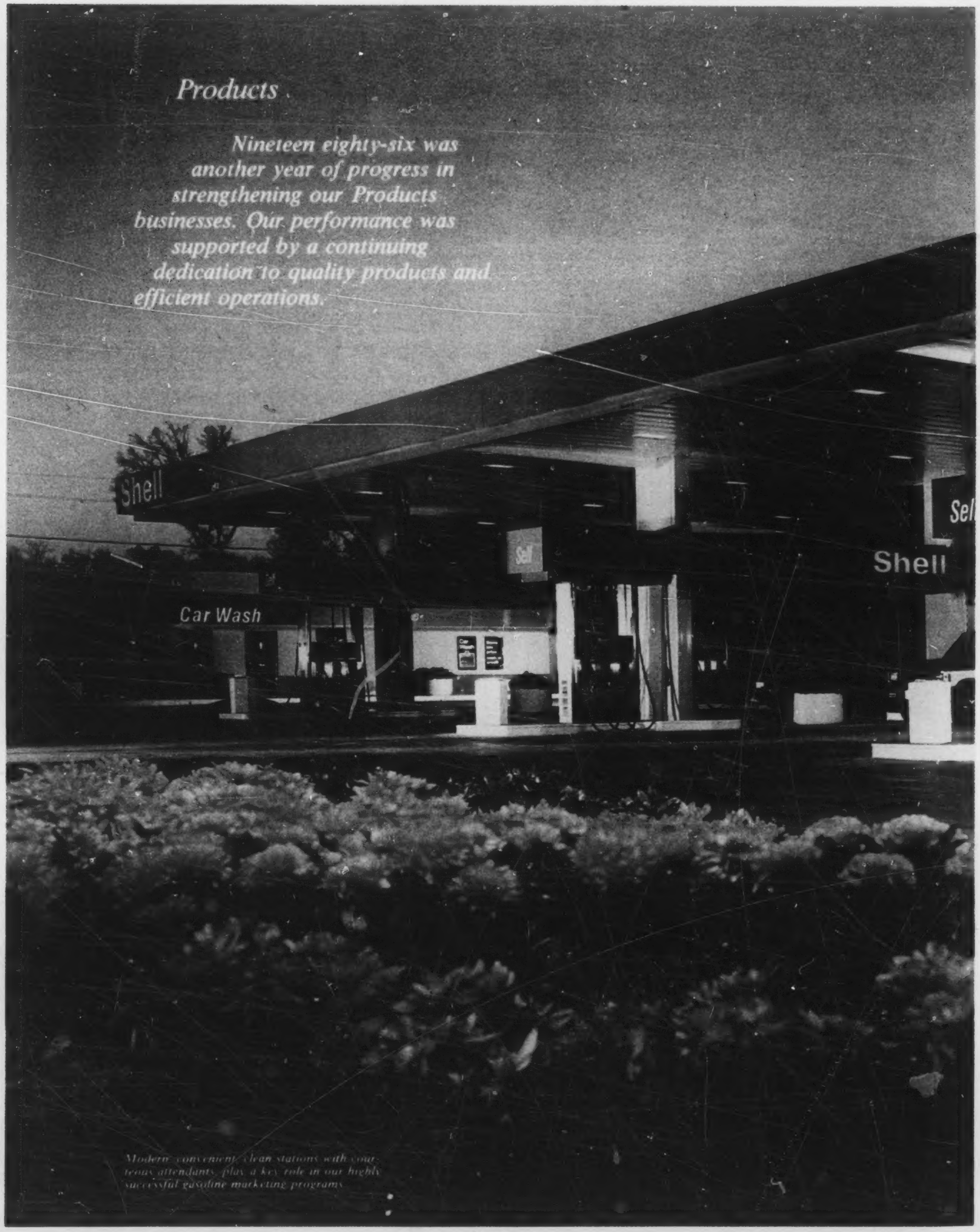
We are among the largest issuers of gasoline credit cards, with more than 16 million people holding Amoco cards. The profitable Amoco Motor Club, with 2.4 million member households, grew by about 250,000 households in 1986. In addition, Amoco Motor Club began providing road and travel service to owners of new Volvo cars.

To improve efficiency and speed up the payment process, we began installing an electronic system to modernize the collection and processing of data from our service stations and terminals in 1986. It will be implemented throughout our system during the next two years.

We also are lowering costs by the withdrawal—now nearly completed—from dealer and jobber marketing operations in Massachusetts, Rhode Island, Louisiana, Texas, and parts of Connecticut. The withdrawals are the result of low volume or low profitability in these areas.



Rising behind Operator Rey Lira is one of the vessels of the new alkylation unit that went on stream at Amoco's Texas City refinery in 1986. It produces high-octane blending components for the company's lead-free gasolines.



Products

Nineteen eighty-six was another year of progress in strengthening our Products businesses. Our performance was supported by a continuing dedication to quality products and efficient operations.

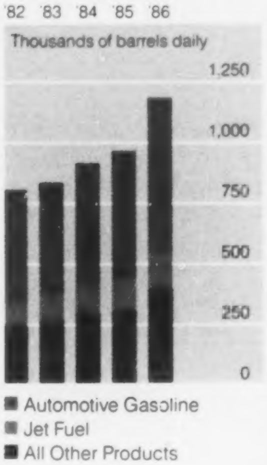
Modern, convenient, clean stations with courteous attendants, play a key role in our highly successful gasoline marketing programs

SHELL OIL COMPANY

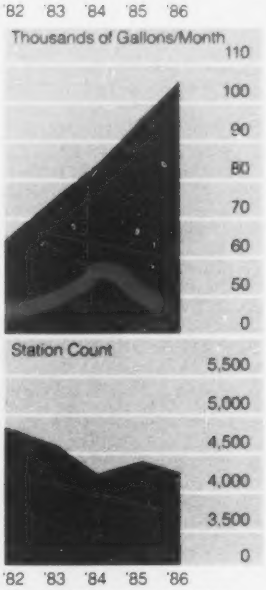
EXCERPT FROM THE ANNUAL REPORT OF SHELL OIL COMPANY, 12.31.86

Shell
Food Mart
Ice
Dairy
Coffee
Milk
Snacks
Open
24
hours

Oil Product Sales



Average Monthly Gasoline Sales Per Service Station*



*Owned and leased service stations

BISPHENOL A
QUALITY PROMISE
WE WANT YOU TO KNOW . . . THAT OUR BEST EFFORTS WENT INTO PROVIDING YOU WITH A PRODUCT WHICH FITS YOUR NEEDS, AND THAT WE WILL CONTINUE TO WORK HARD AT IMPROVING OUR PRODUCT AND OUR SERVICE

Meeting customer requirements and doing each job right the first time wins customers and reduces costs. This is a major objective of the quality improvement process that has been introduced throughout our Products organization. Employees at our Deer Park, Texas Manufacturing Complex signed this rail car as a pledge of quality.

is another important marketing strength. In 1986, we enlarged our point-of-sale electronic processing system, which efficiently handles Shell Oil credit card sales, to include transactions made on bank cards.

A fundamental part of Shell Oil's marketing strategy is product quality. Shell SU 2000® super unleaded and RU 2000® regular unleaded gasolines were introduced in 1984. Tests have shown that these gasolines unclog fouled fuel injectors and keep them open, as well as controlling deposits in the whole fuel inlet system. They also contain a patented additive package to reduce engine knock by controlling the tendency for modern engines to increase their "octane appetite" with age.

In 1986, we introduced a new line of high-performance Shell Fire & Ice® motor oils designed to perform well in four- and six-cylinder engines as well as in turbo engines.

Also during 1986, we continued to place great emphasis on our formal quality improvement process which marshalls the whole Oil Products organization to meet customer requirements efficiently and effectively and to perform each task right the first time.

In support of our higher sales volumes, we focused more intensively on operations and improved our production of refined products by 12 percent, including a 14 percent increase in the production of gasoline and other "light" products.

Nearly a decade ago, we embarked on an investment program to improve yields and enhance productivity at all our refineries. A major portion of this

SHELL OIL COMPANY

EXCERPT FROM THE ANNUAL REPORT OF SHELL OIL COMPANY, 12.31.86

Segment Highlights

Millions of dollars, except where noted	1986	1985
Products		
Segment Net Income		
Oil Products	$ 319	$ 269
Chemical Products	$ 342	$ 96
Capital Expenditures		
Oil Products	$ 342	$ 496
Chemical Products	$ 95	$ 195
Refinery Processing Intakes (thousands of barrels daily)	975	890
Refined Products Sold (thousands of barrels daily)		
Automotive Gasoline	620	515
Jet Fuel	135	134
All Other Products	418	304
Total	1,173	953
Refined Products Sold	$ 9,109	$11,581
Chemical Products Sold	$ 3,216	$ 3,217

Key Results

- ***Oil Products earnings increased 19 percent to $319 million, benefiting from higher sales volumes and improved operating efficiencies.***
- ***Our gasoline sales volumes through service stations rose 12 percent, the largest percentage gain in more than 25 years.***
- ***Productivity programs in Oil Products have kept fixed costs at 1983 levels, while sales volumes increased by about one-third.***
- ***Chemical Products earnings increased 256 percent to a record $342 million, surpassing the previous high attained in 1979.***
- ***Improved margins and record sales volumes contributed to the strong performance in Chemical Products.***
- ***We continued the restructuring of our Chemical Products operations by selling our agricultural chemical business.***

Oil Products

Oil Products' major objective is to be the most profitable refiner-marketer. To achieve this objective, we continue to stress high-quality products and marketing programs that improve our abilities to serve customers and thereby increase demand for our products. We also stress efficiency and productivity improvements throughout our operations.

For the refined products industry, 1986 was a year of increased demand. Shell Oil responded to this demand, and in gasoline, we grew four times faster than industry, becoming the nation's largest seller of gasoline through the third quarter, the last quarter for which published data was available at the time of publication.

Our total gasoline volume increase through service stations was 12 percent. Average monthly sales per directly supplied station increased by 11 percent, the seventh consecutive annual increase.

In addition, heavy fuel oil sales increased 126 percent, reflecting the addition of the Scallop subsidiaries in late 1985. Sales of kerosene, heating and diesel oils rose 30 percent, the fourth consecutive strong yearly increase.

Strong marketing programs played a significant role in generating our increased gasoline sales volumes. Central to these programs is the concept of modern, high-volume service stations in those metropolitan areas where we have the greatest logistical and marketing strength. During the past two years, we have acquired some 400 stations, primarily in the Northeast, Atlanta, and Chicago.

During 1986, we also introduced a new nationwide warranty program for Shell Auto Care customers. Under this program, a customer who has automobile repairs performed by a participating Auto Care dealer can obtain warranty service nationwide at other participating facilities. By contrast, other car repair warranties commonly provide for adjustments only by the dealer who originally performed the work.

Our strategy of promoting gasoline sales at the same price, cash or credit,

SHELL OIL COMPANY

EXCERPT FROM THE ANNUAL REPORT OF SHELL OIL COMPANY, 12.31.86

Refining and Marketing — Our objective is *to be the most profitable refiner-marketer,* while producing surplus cash and contributing to the company's real net income growth. We believe this is realistic, even in an extremely competitive marketplace.

Net income in this segment increased for the third consecutive year in 1986. The segment also generated over $300 million more in after-tax cash income than its capital expenditures, and over the past 10 years has produced more than $1.5 billion in surplus cash.

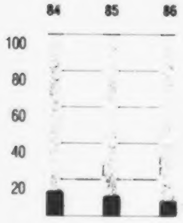
Refined product sales volumes continued to grow, rising 23 percent in 1986, the fourth yearly increase in a row. Service station gasoline volume was especially strong, with sales growing 12 percent, compared with a 2.6 percent increase for industry. More than half of the volume growth was due to strong marketing programs, while service stations acquired in late 1985 accounted for most of the balance. We were the number one gasoline marketer in the nation in 1986, based on preliminary data.

The strategies behind this strong competitive performance are:

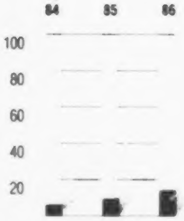
- Concentration in strategic large volume markets, with continuing modernization of service stations, along with selective acquisitions and consolidations;
— Dedication to high-quality products and superior customer treatment at our retail outlets;
— Expansion of our credit card program and electronic processing of credit transactions; and
— Continued emphasis on lowering unit refining costs and improving return on investment through refinery modernizations that increase production of higher-value light products from lower-quality crudes, while conserving fuel.

ATLANTIC RICHFIELD COMPANY (ARCO)

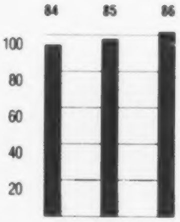
EXCERPT FROM THE ANNUAL REPORT OF ATLANTIC RICHFIELD COMPANY (ARCO), 12.31.86



▬ Refining and Marketing Assets as Percent of Total



▬ Refining and Marketing Additions to Fixed Assets as Percent of Total



West Coast Refinery Runs as Percent of Operable Refining Capacity

During 1986, ARCO was the number one marketer of gasoline in its five-state marketing area: California, Oregon, Washington, Nevada and Arizona. The Company also became the free world's leading marketer of calcined coke.

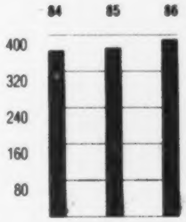
ARCO's retail service stations continued to generate the highest average gasoline volume in the industry. During 1986, average throughput at lessee dealer stations was approximately 175,000 gallons per month, more than double the industry average.

The Company further expanded its innovative and highly successful am/pm® concept in 1986. Eighty-seven new am/pm stores were added and more than 300 stores were retrofitted to provide increased space for take-out food. This concept of one-stop shopping for gasoline and food purchases has been a major success with the motoring public. For ARCO, the convenience items and fast food boost gasoline sales and are also profit contributors themselves.

ARCO capitalized on its success with take-out food in 1986 by introducing additional items, including self-serve hamburgers. ARCO is testing additional hot-prepared fast-food products to take further advantage of this market opportunity.

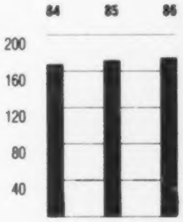
ARCO also introduced its PayPoint℠ automated customer payment system on a large scale in 1986. By year end, the system was in operation at more than 600 outlets in California and Nevada. PayPoint enables customers to use bank-issued automated teller machine (ATM) cards at ARCO stations to purchase gasoline, food items and even to withdraw cash from their bank accounts. ARCO's system currently provides direct access to more banks and more customers than any other point of sale network in the nation.

■ Refining and marketing operations that are possibly the most efficient and profitable in the industry. Our goal is to keep them that way. ARCO is the leading marketer of gasoline on the West Coast and the world's leading producer of calcined coke. Gasoline sales volumes at ARCO stations are twice the industry average and our two West Coast refineries exceed the industry average for utilization rates and light product yield.

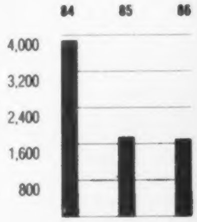


Petroleum Product Sales (thousand barrels/day)

▬ Other
▬ Jet fuels
▬ Distillate fuels
▬ Gasoline



Average Gasoline Sales per Lessee Dealer Station (thousand gallons/month)



Domestic Branded Retail Outlets

▬ Other
▬ am/pm

MOBIL OIL CORPORATION

EXCERPT FROM THE ANNUAL REPORT OF MOBIL OIL CORPORATION, 12.31.86

Our downstream business was a real success story—a year when we sold more while spending less

Downstream operations were exceptionally profitable for Mobil in 1986—proving once more that the company's strength is in its *balance.* Downstream operations—meaning marketing and refining (M&R), supply and transportation—contributed well over a billion dollars in after-tax earnings, an extremely satisfying improvement from even the fine results of 1985.

These improved profits came partly from market conditions: Crude prices fell faster than product prices, boosting industry profit margins. And the dollar weakened against foreign currencies. This made overseas operations more profitable, since earnings in local currencies translated into more dollars.

Much of *our* success, however, came from our decisions to make Mobil's downstream operations more lean and efficient. For example, from 1981 to 1985 our downstream staff had already shrunk by 16%, and 1986 brought a further 4% reduction. Over the past six years the M&R Division has been steadily reducing management levels, closing regional offices and centralizing operations. We now have more flexible supply, a leaner and more efficient marine fleet, fewer but more sophisticated refineries, more innovative marketing capabilities and more responsive information systems to run the business more efficiently. At the same time, sales increased by concentrating on our areas of strength. And through research, Mobil intends to stay at the forefront of lubricant and fuels development.

Our new point-of-sale terminal electronically processes debit and credit card transactions—a fast and efficient way of doing business for us, and secure for the customer.

MOBIL OIL CORPORATION

EXCERPT FROM THE ANNUAL REPORT OF MOBIL OIL CORPORATION, 12.31.86

Stronger market shares

A clear sign of Mobil's efficiency is that while staffing levels decreased, sales volumes of the more profitable fuels—gasoline, diesel and jet fuel—increased steadily. As a result, our market position held up or improved in most parts of the world. This was particularly true of our long-held strength in the lubricants business. Mobil is the leader in the international marine lubricants market, strong in industrial and automotive lubricants and improving in premium lubricants sold in retail stores. And there's ongoing growth in our product line of synthetics—the high-tech, high-profit top of the lubricant line.

More competitive retailing

To excel despite today's tough competition, this company has worked hard to enhance our position in markets where Mobil is strong, while withdrawing from markets where Mobil wasn't competitive with the best.

The number of our service stations worldwide dropped by 6% in 1986 even as acquisitions integrated marketing operations that fit well with ours. In the U.S., Mobil completed or announced withdrawal from gasoline marketing in all or parts of 12 states, while acquiring a number of stations in Florida, Rhode Island and the Boston area where the company was already strong.

At the same time, more service stations throughout the world were remodeled with a new, attractive design. Customers now have access to well-located modern stations with convenient, high-speed pumps and the latest electronic payment card facilities. Mobil is the U.S. industry leader in the acceptance of bank debit cards, which let you get the lower cash price for your gasoline without actually having cash in your pocket. Electronic payment systems also are a success in Europe, Australia and the Far East, and similar systems are being introduced for diesel fleet fueling throughout Europe. Personal computer-based dealer systems are improving the operating efficiency of our outlets in Australia and New Zealand. And customers gain convenience from retail centers such as Mobil Marts and car washes in the U.S. and Food Marts in France and Australia.

The result is that Mobil has progressively increased average sales per outlet through the entire system. In the U.S., average annual gasoline volumes at outlets where Mobil has an investment jumped by 21% in 1986, and in Europe average fuel volumes rose about 9%.

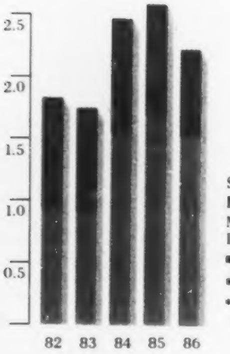
Mobil has launched newly formulated premium gasolines with detergent additives in 10 countries, including the U.S., France and Australia, resulting in increased gasoline volumes in each of the countries. For example, in the U.S., sales of Super Unleaded were up 46% in 1986. Mobil gasolines with detergent additives were tested and developed in our laboratories and have the ability to clean clogged port fuel injectors while you drive.

CHEVRON CORPORATION

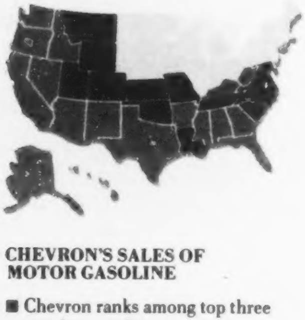
EXCERPT FROM THE ANNUAL REPORT OF CHEVRON CORPORATION, 12.31.86

> **"The name of the game in 1986 was reacting swiftly to a changing marketplace. We reorganized, trimmed down and concentrated on our areas of strength, both strategically and geographically. Only the most flexible and efficient marketers are going to survive the current environment."**

LOU TAIGEN
Vice President
Chevron U.S.A. Marketing



Sales of Petroleum Products*
Millions of Barrels Per Day
■ Non-U.S.
■ U.S.
*Worldwide including interests in affiliates



CHEVRON'S SALES OF MOTOR GASOLINE

- ■ Chevron ranks among top three gasoline marketers
- ■ Chevron holds 1 percent or greater gasoline market share

MARKETING

...... ***Marketers build on strengths*** .... Even after the sale of marketing facilities in 10 northeastern states and Ohio during 1986, Chevron U.S.A. remains the top U.S. seller of jet fuel, diesel fuel and asphalt. The Company also kept its position as one of the top three marketers of motor gasoline in 17 states, plus the District of Columbia.

"We're not as interested in being No. 1 in size, however, as we are in being the most profitable," says Lou Taigen, Vice President, Chevron U.S.A. Marketing. "Market share is important to us only if it reflects logistical and competitive advantages. We want to build on existing strengths in the fastest-growing areas: the mid-Atlantic, the Southeast, the Southwest and the West Coast." Chevron also launched plans to strengthen a "weak link" in its East Coast chain of service stations by expanding in North and South Carolina.

Chevron U.S.A. Marketing eliminated a layer of management and consolidated 11 sales divisions into seven. These moves not only helped marketers react more quickly to the volatile marketplace, but also shifted more authority to field offices that now can respond better to their customers. Marketing's work force was cut back dramatically through a combination of early retirement incentives, asset sales, consolidations and work force reductions.

...... ***Retail renovations continue*** .... Marketers made progress in the fourth year of an ambitious project to rebuild, modernize and automate strategically located service stations. These stations are tailored to the needs of their areas and might include a service bay, car wash or convenience store, in addition to full- and self-service pump islands. The average gasoline volume sold at Chevron's revamped stations has nearly doubled, and most are geared for the self-serve customer, who now accounts for 80 percent of total U.S. retail gasoline purchases.

Retail modernization and credit card automation projects also were launched by Chevron Canada Limited in British Columbia, where the Company captured 20 percent of the gasoline market, up from 18 percent in 1985. This can be attributed to retail modernization, aggressive advertising and a surge in business from Expo 86 at Vancouver. Chevron Canada earned record profits in 1986. The Company also remained No. 1 in branded retail sales in British Columbia and further streamlined operations through the sale of its asphalt subsidiary.

...... ***Chevron capitalizes on quality*** .... Both domestically and overseas, Chevron marketers recognized early that motorists are becoming more "quality conscious," largely because the newer fuel-injection engines run best on gasolines with cleansing additives. Average monthly sales of Chevron's Techron additive at the end of 1986 grew nearly threefold compared with the 1985 level. Techroline, as the additive is called when blended into Chevron's unleaded gasolines, is used by all four major U.S. auto makers in their federal emission systems durability tests. "It's the premier additive for removing engine deposits," Taigen says.

In addition to Techroline, marketing geared up for major worldwide campaigns to sell more lube oils, including the nation's best-selling diesel engine oil — DELO.

USX CORPORATION—MARATHON OIL COMPANY

EXCERPT FROM THE ANNUAL REPORT OF
USX CORPORATION—MARATHON OIL COMPANY, 12.31.86

Refining & Marketing

Crude oil and natural gas liquids processed at Marathon's four domestic refineries (in Illinois, Louisiana, Michigan and Texas) averaged 442,227 barrels per day in 1986, compared with 402,676 barrels per day in the prior year. As a result of increasing demand, Marathon reactivated a 20,500 barrel-per-day crude unit at Texas City, which had been essentially mothballed since 1982. The four refineries operated at 87 percent of in-use capacity, compared with 81 percent in the prior year. Conversion units, which upgrade the refineries' product stream, ran at 90 percent in 1986, compared with 86 percent in the prior year.

Domestic product sales for the year averaged 514,500 barrels per day, compared with 470,500 barrels a day in 1985, a nine percent increase, as Marathon increased its market share across the eastern half of the United States. As a comparison, the national demand for petroleum products increased only 2.7 percent during 1986.

Marathon's Emro marketing subsidiary, which operates more than 1,300 outlets, many with convenience stores and truck stops, increased its earnings to record levels in 1986, achieving a 13 percent increase in gasoline and a 30 percent increase in distillate sales volumes from levels of a year earlier.

Emro also effected economies by consolidating eight separate brand operations into four operating divisions. Contributing to Emro's performance was the sale of such non-petroleum products as cigarettes, beverages and fast foods. Emro expanded the number of outlets selling fast foods by 30 percent during the year. Revenues from these items increased 19 percent over 1985 levels.

STANDARD OIL CO. OF OHIO (SOHIO)

EXCERPT FROM THE ANNUAL REPORT OF STANDARD OIL CO. OF OHIO (SOHIO), 12.31.86

Refining and Marketing

John G. McDonald
President
Sohio Oil Company

The value of a well organized and efficient downstream business has never been more evident than in 1986. The refining and marketing business profits from the spread between crude oil and petroleum product prices. Wholesale and retail product prices fell less rapidly than did crude oil prices, creating good profit margins during the first half of 1986. This partially cushioned the impact of depressed crude oil prices on Standard Oil's overall results.

Financial and Operating Results

Operating income from refining and marketing was $436 million in 1986, up from the $351 million earned in 1985, which was reduced by $47 million of unusual item charges. About 29 percent of 1986 operating income was contributed by the former Gulf Oil Corporation properties acquired in 1985. Refined products sales bettered 1985 totals by 7 percent, averaging 644,500 barrels per day. Gasoline sales totaled 355,600 barrels per day, an increase of 2 percent from last year.

Operating Environment

Although product demand rose slightly in 1986 because of lower prices and increased economic activity, the company's short-term forecast for demand is one of little to modest growth. Consumption of diesel and jet fuels is expected to increase, while gasoline demand will stabilize. Overcapacity exists in all sectors of the business despite significant rationalization, and competition is intense.

Strategy

Within this industry environment, our strategy is to increase operating efficiency and to capitalize on competitive strengths throughout the downstream system. The company is also seeking to identify opportunistic investments based on existing competitive advantages.

Trading and Transportation

Standard Oil's trading and transportation organization is responsible for marketing and transporting the company's Alaskan crude oil, as well as supplying and transporting the necessary crude oil feedstocks to the company's refineries.

As the owner of the largest share, or one-third, of the Trans Alaska Pipeline System (TAPS) and the operator of the largest fleet of United States flag tankers, the company is able to use its market position to operate efficiently and safely, thereby reducing costs.

The cost of marine shipping Alaskan crude oil was reduced during 1986 due to a decline in fuel costs, an increase in West Coast placements, and the company's ability to utilize its ships in the most efficient manner. About 32 percent of our Alaskan crude oil was marketed on the West Coast in 1986, compared with 22 percent in 1985. The balance reached Gulf Coast and Caribbean markets.

Refining & Marketing Millions of Dollars	1986	1985
Income Before Interest and Income Taxes	$ 436	$ 351
Unusual Item Charges (included above)	–	47
Net Assets	2,000	2,000
Capital Expenditures	185	489
Refined Petroleum Products Sold (barrels per day)	644,500	604,200

Crude oil from the Gulf of Mexico, carried in pipelines, passes through a Sohio Pipe Line Company pump station in Louisiana on its way to the Alliance refinery.

cent of total refinery output, compared with the industry average of 83 percent. The refineries also benefit from the security of the company's equity crude oil supply, advantageous locations near markets where product supply is short, and balanced distribution and marketing channels.

These advantages enable the refineries to sustain a high utilization rate, which is a key to maintaining profitability. In aggregate, the company's four refineries operated at 92 percent of capacity in 1986, eight percentage points higher than the industry average of 84 percent. Refining margins also benefited from a heavy emphasis on cost control, especially in maintenance and fuel.

Retail Marketing Efficiency

Standard Oil is improving operating efficiency in its traditional marketing area of Ohio and western Pennsylvania by closing a number of marginal conventional stations and consolidating fuel sales at highly efficient, gasoline-only stations. From 1983 through the end of 1986, the number of company-operated stations in Ohio has decreased by 16 percent, while retail gasoline sales volume has increased 10 percent.

As part of this restructuring, automotive service is being shifted to PROCARE® branded facilities in major metropolitan areas. Introduced in Ohio in 1984, PROCARE® provides high-quality, technologically advanced automotive service with an emphasis on customer convenience. The number of PROCARE® centers more than doubled during 1986, with 72 centers in operation in Ohio at year end. Early consumer response to the concept has been excellent, and current plans anticipate a network of more than 100 facilities in Ohio and western Pennsylvania by 1988.

Brand Value

Standard Oil is maximizing the value of its major gasoline brands by providing a product and service mix which stresses quality and convenience. Both full service and self service are available at most company locations. Full-facility and gasoline-only outlets with a limited nonfuel product line are complemented by conventional stations operated by dealers. To meet customer needs, in 1986 the company introduced new gasoline blends formulated to enhance the performance of fuel-injection engines. Sales of premium unleaded gasoline, a high profit margin product, have increased significantly since the introduction of the new products.

A new design concept is being developed for the company's marketing

Standard Oil markets gasoline under the GULF® brand through more than 5,000 outlets in eight southeastern states. The company plans to expand this network.

outlets. When finalized, the new concept will provide a unified, modern image for the company's major brands while improving the operating efficiency of the outlets. Concepts will be tested on prototypes during 1987, and implementation of the new image through new construction and retrofitting of existing stations is anticipated to begin in 1988.

Growth Opportunities

A major focus for expansion is the Southeast, where Standard Oil plans to capitalize on the former GULF® branded service station network acquired in 1985. Population and industrial growth are creating demand growth in this geographic area, and we plan to enhance our position through new construction and acquisitions of existing outlets. Existing sites will be upgraded to improve efficiency and capacity where necessary.

The company intends to capitalize on increasing highway diesel fuel demand by expanding its truck stop network, first along traffic corridors where it already has sites and then selectively along other major routes. The majority of the company's truck stops are full-service facilities, open 24 hours per day, offering diesel fuel, gasoline, full-menu restaurants, merchandise stores, and truck repair services. One additional truck stop was leased in 1986, bringing the company's total to 41 in 19 states. Plans call for the construction of additional sites in 1987.

Standard Oil is also actively considering expansion into new geographic areas, and is particularly interested in acquiring a presence on the West Coast, provided that a good return would be received.

SUN COMPANY

EXCERPT FROM THE ANNUAL REPORT OF SUN COMPANY, 12.31.86

Refining and Marketing

Sun Refining and Marketing Company proved again in 1986 the value to Sun of being a full-line player in the energy business.

The growing success of strategies that Sun R&M employees have been nurturing over the last four years was enhanced in 1986 when we were able to react quickly to the drop in crude oil prices and to reduce our raw material costs and boost our profit margins. Sun R&M became the major contributor to Sun's 1986 net income.

Sun R&M's strategies are particularly effective in these unpredictable times.

First, we have simplified the business. By organizing along business lines we achieved our aim of providing the flexibility and motivation necessary to the accomplishment of our other plans.

We are controlling complement and costs, and selling more product.

We are investing in our Sunoco gasoline business by upgrading and modernizing our service stations.

We are reaching out to customers at all levels, developing high quality products and services. For motorists, our Ultra gasoline has both the highest octane of any major brand and strong engine cleaning power. Our Ultra service stations have the technology and the skilled staffs to serve the sophisticated modern car.

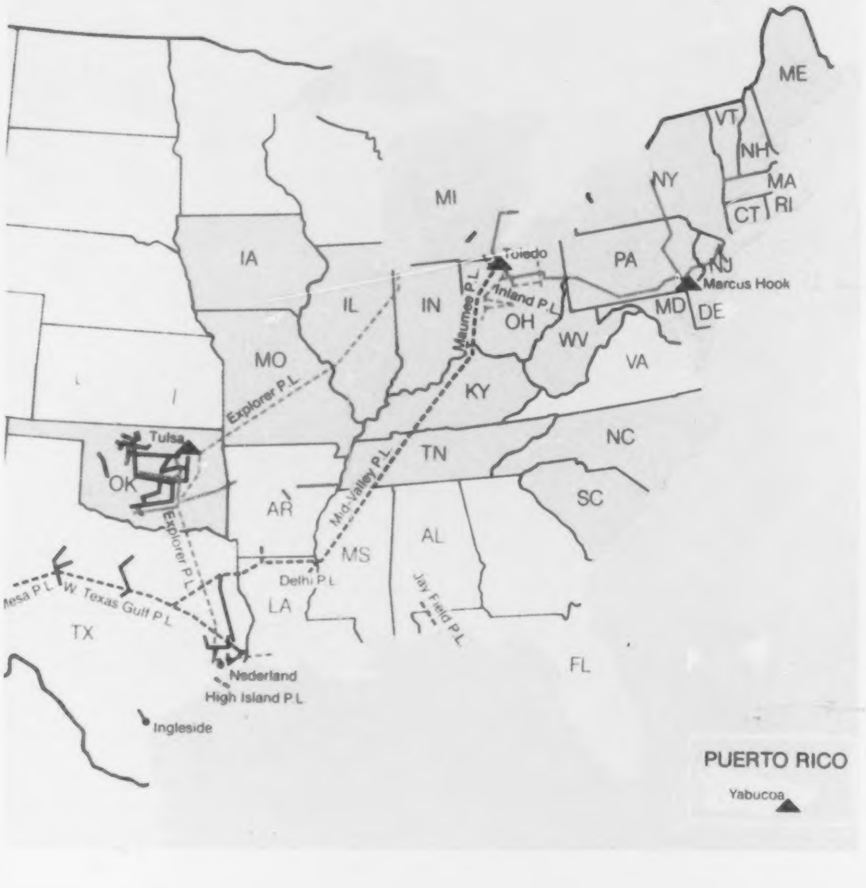
For the homeowner, we are broadening the availability of our clean-burning, high-quality Super K1 kerosene for space heaters.

We have the second largest lubricant capacity in the industry, and offer one of the broadest product lines. Sun is now the largest U.S. packager of lubricants for independent retailers' private brands. To have our service match our product quality, lube manufacturing has been organized so that individual needs of industrial and commercial customers can be promptly met.

We have become a major supplier of jet fuel to commercial airlines and the military.

We are running our facilities well, and have achieved many throughput records in our refineries, pipelines and shipping operations.

We are also investing for the future. At Marcus Hook, in 1986 we completed a new gasoline additive plant and commenced work on an electric cogeneration unit that will cut energy costs.



Refining and marketing operations in the U.S. include many miles of crude oil and product pipelines, two marine terminals, four refineries, and service stations in 24 states.

● **Terminal**
▲ **Refinery**
— **Crude Pipeline, Sun Owned**
--- **Crude Pipeline, Sun Joint Interest**
— **Product Pipeline, Sun Owned**
··· **Product Pipeline, Sun Joint Interest**
▨ **Sunoco and DX Major Marketing Area**

DOLLAR
GALLONS
8
8
SUPERCLEAN
PREMIUM
UNLEADED

Phillips 66 SuperClean unleaded and unleaded premium gasolines were introduced throughout the company's 34-state marketing area in 1986. Formulated to keep fuel injectors and carburetors clean, SuperClean gasolines have more continuous cleaning power than previous Phillips gasolines.

In marketing, efforts will continue to increase the sales of branded products. A major priority will be to increase sales of premium unleaded gasoline, one of the higher margin products, to 15 percent of total gasoline sales, compared with 9 percent currently.

Motor fuel sales were up for the third straight year, primarily as a result of higher sales of Phillips 66 brand products. Compared with 1985, sales of branded products were up 14 percent to the company's independent marketers, while sales rose 32 percent from Phillips own retail outlets. U.S. sales of distillates also continued to improve in 1986.

Marketing

Phillips continued to enhance the image of the Phillips 66 brand, working with independent marketers to improve service and appearance at retail outlets. In addition, the company stepped up its direct marketing efforts by acquiring 17 high-volume stations in metropolitan areas where there was opportunity to make the Phillips 66 brand more visible. As part of the brand-improvement program, the company also built or renovated 40 stations, all featuring the latest in station design and automation. These stations not only provide a good return on investment but also set the standard for what the company expects from its independent marketers in the area.

During the year, Phillips introduced two new unleaded gasolines, trademarked SuperClean. The gasolines have high detergent content and are designed to keep port fuel-injectors, as well as carburetors, running clean.

For the second year in a row, Phillips was voted best supplier to independent marketers by the Petroleum Marketers Association of America.

UNION OIL COMPANY

EXCERPT FROM THE ANNUAL REPORT OF UNION OIL COMPANY, 12.31.86

Unocal Refining & Marketing Division

The company's Refining & Marketing Division achieved higher sales volumes and earnings in 1986, improved refinery utilization, streamlined its organizational structure, and launched a major new product – unleaded premium gasoline – in the western market.

Because of increased sales and lower operating expenses, net earnings from Unocal's refining and marketing operations rose 14 percent in 1986. Petroleum product sales rose by 5 percent over last year; gasoline sales alone were up 7 percent, more than twice the national average.

In a major restructuring, the division was consolidated into a single organization with overall national responsibilities for refining, auto/truckstops, crude supply and transportation, and various administrative functions. Marketing activities, however, remain divided into eastern and western organizations to better serve the unique characteristics of each region. The new organizational structure has improved management control and coordination, reduced operating costs, and shortened lines of communication within the division.

Unocal's system of five refineries operated at 85 percent of capacity in 1986, up from 76 percent last year. This improvement is partly due to having the Chicago Refinery in full operation for the whole year.

Several projects designed to upgrade refinery facilities continue to move forward. Modifications to the existing coker at the Santa Maria (California) Refinery were completed on schedule in 1986. This project enables Unocal to refine crude oils with higher sulfur content, like those from the company's Platform Irene in the Santa Maria basin, while complying with environmental regulations.

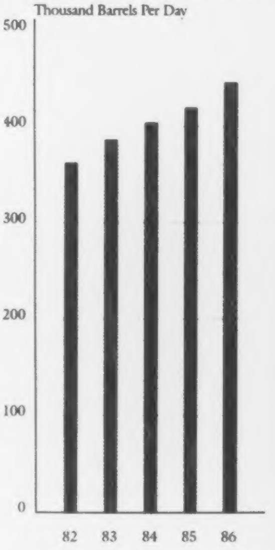
At the San Francisco Refinery, a new crude unit (which replaces a 50-year-old facility), a 49-megawatt cogeneration plant, and a 7,400-barrel-per-day isomerization unit are all scheduled for completion in early 1987. The isomerization unit will increase the company's ability to produce high-octane, unleaded gasoline.

Engineering work has begun on an expanded wastewater treatment facility at the San Francisco Refinery. This new facility is designed to meet increasingly stringent requirements established by the Regional Water Quality Control Board. Engineering work has also begun on a cogeneration facility in the Los Angeles Refinery. When complete in early 1988, this plant will supply nearly all of the refinery's power needs.

On the marketing side, Unocal continues to build on its strengths: a complete line of high-quality products; a national credit card system; and national brand awareness, advertising and merchandising support.

In the Western Region, the company emphasizes full service in a large majority of its 1,800 branded outlets. During the year, Unocal introduced a 92-octane unleaded premium gasoline in California, Nevada and Hawaii, rapidly achieving record sales levels. At the same time, the company phased out its leaded premium gasoline. These steps were in response to the changing composition of the car fleet, where the demand for leaded fuels has rapidly declined.

Petroleum Product Sales



To serve Unocal customers who can no longer buy leaded premium gasoline, the company has begun marketing a new lead substitute called Valve Saver. This gasoline additive protects the valve seats of engines designed for leaded fuel when the vehicle operates under severe driving conditions.

Also in the Western Region, the company continued to expand its 76 Protech program, which sets very high training and performance standards for its automotive technicians. Unocal backs up the Protech program by guaranteeing all work performed at certified stations. More than 600 of the company's dealers in the West are now certified Protech operators.

As part of an ongoing effort to improve the productivity of its service station network, the company withdrew from the central Alaska market in late 1986. Nine service stations, two terminals and a bulk plant will be sold.

In the Eastern Region, Unocal sells the major portion of its gasoline through marketers who then resell the product at their own retail outlets. This way, the company can service about 7,700 retail outlets, including self-serve marts and convenience stores.

East of the Rockies, Unocal's gasoline sales rose more than 17 percent in 1986 versus an industrywide average of about 2 percent in the same area. The company signed up more than 20 new full-line marketers to its marketing group this year and converted through its jobber network over 700 additional retail outlets to the Unocal brand.

The company has developed one of the nation's largest auto/truckstop systems, including 145 interstate highway facilities around the country. In a recent survey, Unocal's auto/truckstop system ranked sixth in restaurant revenues per unit among the nation's top full-service restaurant chains.

CHANNELS OF TRADE—1987

Buying soft drinks continues to be one of the more difficult jobs in operating retail stores. Soft drink companies charge different purchasers different prices. They feel completely justified in doing this. As a representative of Pepsi Cola told me recently, "Only the Computer knows what prices we are charging different customers and at what times we are charging them these prices. Our basic price is $8.65 per case of 12 oz. cans. Whenever I charge you less than this, I'm giving away something of mine. Unless I'm getting something for it, I'm not going to give you a lower price."

The soft drink companies run a shell game where only they know which shell the pea is under. They charge favored customers lower prices. In return, these favored customers take action to increase the market share of Pepsi Cola and Coca Cola. This is disadvantageous to any retailer of soft drinks in other than a favored channel of trade.

Here's an excerpt from a letter I received from Mr. Bill Hober, Vice President Western Division, Pepsi Cola U.S.A. on December 5, 1984. This letter explains how the channels are established and the names of the various channels.

> "In response to your letter dated November 29, 1984, please be advised that we do not establish who is/who is not a Convenience Store, Box Store, Food Store etc. That is done by the industry.
>
> In discussing channel classification with our legal attorneys in New York, Pepsi USA does not classify each account. All channel classifications are provided by the Chain Store Guide.
>
> The Chain Store Guide is available to all corporations to use. It provides an industry and financial profile for all channels. It is an excellent vehicle because it standardizes channel classification.
>
> The Chain Store Guide, 1984 Directory of Supermarket, Grocery and Convenience store chains are defined as follows:
>
> *Supermarket*— Complete full-line self-service market operating in a sales area of more than 6,000 square feet with an annual sales volume of at least $2,000,000.
>
> *Super Store*— Complete full-line self-service market operating in a sales area of more than 30,000 square feet with an annual sales volume of at least $5,000,000.
>
> *Warehouse Store*— A limited assortment (2,000 - 3,000 items) self-service market with a warehouse atmosphere operating in a sales area of more than 10,000 square feet and annual sales volume of at least $2,000,000.
>
> *Box Store*— A very limited assortment (500 - 900 items, without meat and produce) self-service market without price marking operating in a sales area of more than 4,000 square feet with an annual sales volume of at least $2,000,000.
>
> *Superette*— Self-service stores handling groceries, meats and produce, usually in a sales area of less than 6,000 square feet with an annual sales volume of less than $2,000,000.
>
> *Convenience Store*— Food retailer of limited lines of items in a freestanding sales area of 3,000 square feet or less, concentrating on selected fast-moving products."

To my knowledge, the convenience store is the most disadvantaged retail channel of trade. Convenience stores pay a higher average case price for soft drinks from Pepsi Cola than retailers in other channels of trade.

When questioned about this price discrimination, Pepsi Cola and Coca Cola tell you that you don't understand the soft drink business. They explain the franchise system and how the bottlers are independent businessmen who can set their own prices and policies. This argument was always specious, but is even less supportable, since a significant portion of both Pepsi Cola and Coca Cola's volumes are now sold through parent company owned and controlled bottlers. Let me assure you, if you are classified as a convenience store, you are paying a higher price for your soda pop than the chain supermarket.

You may have viewed Sixty Minutes on Sunday, October 25, 1987. This program described part of the system the soft drink companies use to further their aims. They talked about the system that Pepsi Cola and Coca Cola use to freeze other brands from supermarket shelves. They did not tell their viewers that different stores get different amounts from these companies for featuring their products. Payments of over $200,000 for a single weekend to major supermarket chains in Southern California are not unusual.

I am not optimistic that the system is going to change very much. Pepsi Cola and Coca Cola have been very skillful in using discriminatory pricing to their advantage. They have given advantageous pricing to the major players in the market. The tens of thousands of smaller retailers seem satisfied when they get a small perk from their major soda bottler or their parent company.

Pepsi Cola and Coca Cola have made the system very complicated. You need to establish rules of your own for keeping track of your costs. You need to know your net cost per case on an annual basis for your purchases of soft drinks. Here is an indication of what you should be paying for a case of 12 oz., 24 cans.

Cost of private label cola, 4 six packs or 24 cans of 12 oz. in truck load quantities	$3.50
Bottler distribution costs and profit per case	$2.00
Net cost per case on an annual basis	$5.50

Calculate your invoice cost and deduct any rebates you are now receiving. It is best to do this on both a weekly and annual basis. If you are paying more than $5.50 a case for Pepsi Cola or Coca Cola, you are a victim of the soft drink distribution system. The practice of price discrimination between channels of trade has cost you money. Convenience store companies should not allow themselves to become victims of economic apartheid.

Soft drinks are an important category for small food stores. In 1982 13.11% of 7Eleven's total in-store merchandise sales were soft drinks. They had $3.96 billion in merchandise sales, so they sold $519,400,000 in soft drinks. Total national soft drink sales are about a 20 billion dollar business, so 7Eleven did about 2.6% of the national soft drink business.

If C-type stores are to break the value barrier, they must be able to purchase the products in their volume categories as cheaply as their competitors in other channels of trade. At the present time we cannot purchase Coca Cola as cheaply as our competitors can. We found this out by watching the soft drink ads.

We used to believe that our competitors (retailers who sell soda pop from stores) were selling soft drinks below cost. Now we know that they can sell cheaper than we can because they can buy soda pop cheaper than we can. Don't rely on anti-trust legislation to give you protection from price discrimination from the Coca Cola Company. Apparently the Soft Drink Territorial Exemption Bill of 1976 protected the soft drink companies against some federal price discrimination laws. If you have information on the Coca Cola Company's channels of trade policy, I'd appreciate receiving it.

CHANNELS OF TRADE 1984

This item was included in the 1984 Dollars Per Day Survey.

I've been in the retail business long enough to think that I know something about most of the important things about that business. I'm always amazed when I discover something important that is contrary to my understanding of how the business works.

On November 18, 1983, Mr. Grover G. Jackson, Director, Vice President and General Counsel of Coca Cola Bottling Enterprises, Inc.—the wholly owned company bottling operation of the Coca Cola Company of Atlanta, Georgia—enlightened me as to the "channels of trade." I thought the intent of the Coca Cola Company was to charge all of its customers in the take-home market the same price. Instead, the Coca Cola Company recognizes various classes of customers within the take-home market and has different prices for customers from different classes of trade. Customers are assigned to these classes or channels of trade on the basis of the Coca Cola Company's perception of the type of business they conduct. Prices charged by the Coca Cola Company for their soft drinks vary between customers, depending on the "channel" in which Coca Cola places them and whether they happen to demand or are offered special discount or rebates from the stated price for their "channel." I asked, but still haven't been told (12/12/83), the various categories or the requirements necessary to be perceived worthy of the most favored price category. Among the categories Mr. Jackson mentioned are membership club stores (The Price Company), supermarket chains (Safeway), and convenience stores. There are apparently other classes or channels of trade, and there are special deals within various channels.

In the San Francisco market, the Coca Cola bottler is a wholly-owned subsidiary of the parent company. The listed wholesale price is $7.64 per case of 12 oz. cans. The Price Club (a membership-type mass retailer) apparently buys Coca Cola for $5.40 per case. Safeway purchases at $5.72, but that is before cash payments to Safeway of an unspecified amount. We've found that some of our competitors (Coca Cola does not perceive them to be competitors since they perceive them to be in other "channels of trade") have been offered prices and deals which have not been offered to us. (These include grand opening specials, remodeling specials, outside sales specials, anniversary specials, annual case rebates, and other specials.) You may want to write Mr. Grover Jackson, P. O. Drawer 1734, Atlanta, Georgia or call him at 404-898-3076 for an explanation of channels of trade.

CHANNELS OF TRADE 1985

This item on Channels of Trade was included in the 1985 Dollars per Day Survey.

Buy cheaper. Convenience stores buy terribly. Convenience stores buy so badly that their buying disadvantage has been institutionalized. Some suppliers have organized programs to sell you less goods for more money. They think you should pay more for goods than other channels of trade. You should reread the column from last year's Survey. I was shocked when I found out about "Channels of Trade." I suspected that I paid more for soft drinks now and then, but I didn't realize Coca Cola and Pepsi Cola thought it was right that I paid more.

Your sense of fairness probably says that anyone who buys the same quantity of soft drinks should pay the same price. The soft drink companies think that since you sell their product for more money, they should charge you more money to buy it. They consider the mass market retailers to be market expanders. They are willing to offer price to those retailers. Since C-type stores merely trade on brand names to get a high price for goods, soft drink companies think you should subsidize their label's market expansion.

This system has been institutionalized under what they call "Classes of Trade" or "Channels of Trade". You are in a channel of trade and you need to know what that channel is and what that channel pays for soft drinks. You also need to know about all of the other channels of trade and all of the deals they are offered to expand their sales of soft drinks.

Most of you could buy Pepsi Cola and Coca Cola cheaper if you drove a truck down to the local supermarket and bought product from them. Get in the habit of watching the local chain drug and supermarket ads. Call your local bottler and the national company representative when you are paying more than they are selling it for. Don't accept the answer that your competition is selling below cost. The only cost they sell below is yours. You need to instill in the soft drink people a new code of fairness.

They have divided and conquered the retailers by giving each segment of the market a different deal. You have a better deal than some other segments. You should get them to change the policy that small stores pay more per case than big stores for the same quantity of product. Remember that you are dealing with slippery folks. Listen to them and then check what they tell you against the ads and shelf prices of the mass market price competitors.

PHILOSOPHY OF RETAILING (1986)

The following is a talk given by John Roscoe to a group of Gasoline and Convenience Store operators in September 1986. It is included in the Survey to provide additional background information.

Today I'm going to talk about retailing. Retailing is a process of buying merchandise and selling it to others. For the past thirty years I've tried to develop a retail system. My primary thrust has been to perfect a system that can be replicated or reproduced in cookie cutter fashion. A system that would develop a high degree of profitability and a high degree of success. I've wanted to have an operation that was big enough to insure that I'd become rich and famous. I'm still working on it; someday I hope to get it right.

I spent many years in the convenience store business. Most of you have an interest in that activity. Marilyn and I started in that business in 1957 when there were only a few hundred stores of that type in the country. We spent a lot of years trying to make that concept work.

The convenience store business can be defined as the "less for more" business. It is highly location oriented. It is different from mainstream retailing, which is the "more for less" business. Convenience stores have their own set of operating principles. They violate many generally accepted principles of successful retailing. Convenience retailing is a simple business and is most profitable when the sales volume of the location allows it to continue as a simple business. It is not mass market. It will not be a mass market. Its market potential is limited. Given choices, people will not pay more than necessary to satisfy their wants.

Convenience retailing is an easy business to enter. It was good to us for many years. Several years ago, I studied the outlook for the business and decided we should direct our efforts to the mass market business. We are no longer in the convenience store business. We are in the discount food store business. We are in the low price, high volume, efficient operation, low cost operating cost retail business. We intend to be the basic source of supply for the products which we offer for sale. We're in the "more for less" business.

Today I'm going to give you an overview of convenience stores and gasoline operations in terms of the size of the market and the potential of the markets. Then I'm going to talk about the need to become a retail philosopher and about the principles of good retail philosophers.

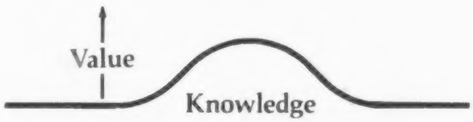
The next section is very hard for retailers to understand. Most retailers think all markets are infinite. Because of this they tend to overexpand. They believe the market is saturated for the other guy, but not for a merchant with their unique combination of skills.

Markets are finite. There is a limit to the amount of goods and services that are in demand.

Retail concepts have value in relation to demand. When a demand is first identified, it has the greatest value. As knowledge of the demand becomes known, more and more merchants attempt to fill the demand. As this happens, it becomes harder for all of those undertaking this activity to be successful. The value of a retail concept varies depending upon the knowledge and acceptance of the concept among possible participants in the activity.

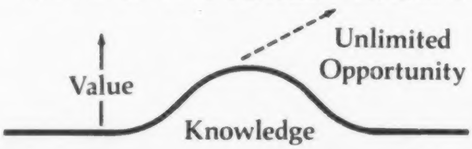
Note the following Bell Shaped Curve:

VALUE OF THE RETAIL CONCEPT



The value of the concept is highest before it is well known. As it becomes better known and accepted, its value diminishes. Unfortunately, those involved in the activity, particularly if they are doing well, think there is unlimited opportunity.

VALUE OF THE RETAIL CONCEPT



Most operators and particularly most newcomers are insensitive to the satisfaction of demand and the oversaturation of a retail concept.

One measure of where the concept stands on the acceptance scale can be determined by noting the type of new participants entering the activity. Innovations are first created by the wild men. They are then exploited by the opportunists. When established businesses begin to use the idea, it's near the end of its life cycle. Oil company executives with enough authority to implement a retailing project are well insulated people. They are about the last to find out about demand. As a rule you should remember: When knowledge of a concept rises to the level that a marketing idea begins to be implemented by a major oil company, it's time to stop using the concept.

Let's look at the food store business. According to *Progressive Grocer Magazine*, the total sales for all food stores in the United States was about $292 billion dollars in 1985. They say that 7% of those sales are made by convenience stores. They estimate there are about 45,000 convenience stores and this is 30% of all food stores in the country.

There are no reliable estimates of the number of convenience food stores. The best guesses center around 60,000 units. If we assume there are 60,000 stores, the average daily sales in a $292 billion dollar market with a 7% convenience market share would be $934 per day per store. If we assume that convenience stores can attain a 10% market share, the average daily sales per store in a $292 billion dollars market would be $1,334.

C-TYPE STORE SALES HOW MUCH DEPENDS ON HOW MANY

TO DO 10% OF U.S. GROCERY BUSINESS

# of C-Type Stores	Their Average Daily Sales Will Be:
60,000	$1,344
75,000	$1,066
100,000	$ 800
200,000	$ 400

60,000 stores is the Current Estimate
C-Type Stores Now Have 7% of the U.S. Grocery Business

This schedule shows average daily sales per store per day in a $292 billion dollar market with varying numbers of convenience stores and convenience stores having a 10% market share. The number of stores in the convenience store segment is likely to increase faster than the food market or the market share of convenience stores. Remember, we didn't pass 500 convenience stores until about 1960. Since there are now so many operators, the next doubling of store population will not take 25 years.

This should be disturbing to those of you who have an investment in convenience stores. It should be a warning to those who are considering this a prospective business. The supply of convenience stores has outrun the demand. The value of the concept is on the decline. You are on the backside of the bell shaped curve.

How about gasoline units. How many do there need to be?

Last year the national demand for automobile gasoline was 101 billion gallons. The demand for gasoline has been relatively stable for the past few years. Most gasoline operators are planning to increase the average throughput per station. Many are having good success in doing this. Most operators are planning new units to pump in the 100,000 to 200,000 gallons per month range.

HOW MANY GASOLINE PUMPING UNITS DO THERE NEED TO BE IN A 101.4 BILLION GALLON ANNUAL MARKET?

Average Units Monthly Gallonage	# of Units Needed to Supply total Gasoline Market
83,333	101,400
100,000	84,500
125,000	67,600
150,000	56,333
200,000	42,250

There are now 200,000 to 250,000 Gasoline Retailers in the U.S.

No one really knows how many gasoline stations are in business today. We do know there are, and have been, too many. At one time in the past 30 years there were over 400,000 stations in the United States. Today there are between 200,000 and 250,000. The top 20 refiners operated 140,000 units in 1984 which was 20% less than they operated in 1980.

If we assume that 100,000 gallons a month is a reasonable future average gallonage goal, we will need only 84,000 stations to pump 101 billion gallons. There are far too many gasoline pumping units today. It's also apparent from the figures and projections on convenience stores that there will soon be more than 84,000 convenience type stores alone.

It is interesting to observe retailer's reactions to these figures and projections. Most operators agree with these figures. Most operators are sure the other guy is going to have problems, but they have been granted an exemption from these trends. Even though 200,000 gasoline retailers have gone out of business in the last 20 years. Even though everyone believes there will soon be more convenience stores than need to be total gasoline pumping units. Even though you believe these figures, you think nothing bad is going to happen to you. A merchant's perception of infinite markets is so strong that most of you will continue to develop more convenience stores and gasoline pumping units.

Now that I've told you that not everyone that wants to be in the C-type store and gasoline business is going to be successful, I'll tell you some things about the operators that are likely to prosper.

The people who make it are those that understand the market and how to meet that market. We'll call them retail philosophers. Everyone has a philosophy or a system of dealing with their perception of reality. Most retailers adopt someone else's system and it often doesn't meet their situation very well. Often it's a mishmash of ideas, slogans, and cliches they've picked up from trade magazines and consultants. Sometimes it's logically inconsistent. Sometimes it's self-contradictory. You need a system that relates to your market and gives you a competitive advantage over the other retailers trying to compete for the same business.

I've studied successful retailing companies. The very profitable, successful retailing companies are based on retail concepts that are the result of one individual's retailing philosophy. Successful retailing concepts are generally the outgrowth of someone's attempt to understand and deal with his market. I don't think you can have a long time successful retail offer without a philosopher. Industries and companies don't have philosophies unless they have a philosopher. When companies lose their philosopher, they generally lose their way. Retailing expert Bob Kahn has written that retail companies only become intergenerational if there is a 10-15 year overlap between generations of management. Passing on philosophy between generations is very difficult.

Philosophers have an understanding of human nature. They seem to understand the way the world works. They continue to test their premises against reality and to make changes in their offer when they find inconsistencies.

Developing a successful retail philosophy requires knowledge. Knowledge of conditions, knowledge of good retailing principles and practices, knowledge of retailing history, knowledge of competition. It requires the ability to reason and to reject false and inconsistent ideas. You need to know where you are going to stand, why you are standing there, what you are standing for, and when you shouldn't stand there any longer. Every action in retailing has a reaction. Reality changes, and the philosopher must continue to make integrations with the new reality.

Good retailers have many similarities. Each year I calculate the operating results on a dollars per day basis of the more successful retail companies in the country. These retailers operate in many different areas of retailing. These retailers make high dollars per day per store profits, and high returns on owner's equity. Most of the companies have been led for many years by one individual.

These philosophers understand the business area in which they operate. They know what it takes to be in their business. It is sometimes difficult for outsiders to understand their retailing system. You cannot always understand their adaption to reality by visiting their stores.

There is a retailing spectrum. It involves all of the functions that must be performed to successfully operate a retailing business. It starts with acquiring the facilities and the products and ends after the sale is made to the customer. The retail shop is only part of the spectrum. Retail is not just minding the store. Success is usually determined by how well the total offer fits into the reality of the market in which the merchant is offering goods for sale.

In mainstream mass market retailing, everything counts. Not just location. Good retailers do many things right. I've compiled a list of many of the characteristics that are common to most of the successful retailing companies.

Here are some of them:

1. They have cash and they use it to buy better. They use it to hold down their expenses.
2. They have extremely low operating costs. Sometimes incredibly low. Sometimes just low in relation to the volumes achieved.
3. They have a philosopher and a philosophy that is consistent with the reality of their marketplace.
4. They stick to their philosophies. They deny themselves opportunity.
5. They have narrow, easily understood offers. Customers know and can tell you what they do. They have a universal selling proposition.
6. They have consistent performance.
7. They do easy things. They do routine things.
8. They do what they do where it can be done best. (Some people do good things in the wrong places.)
9. They expand relatively slowly in relation to their size.
10. Their offer has room for error. They rarely seem to need room for error, but they don't have to hit on all cylinders all of the time to be successful.
11. They know what they do, they now what they do best, they know why they do it, they do it over and over. They know when to stop doing it.
12. They change slowly. Their offer is strong enough that they can change slowly.
13. They try to become institutions.
14. They have a sense of morality in advance of that sense in the community. They know the verities of retailing and they make use of those verities.

15. They do what they do a little better or a little bit cheaper than other retailers.
16. They make a lot of money and they seem to keep it.

Some of you may be wondering why I've told you these things.

It appears you want to be in business as retailers. I suspect that most of you began as gasoline retailers or jobbers. You are the survivors of a declining business. Most of you are still here today because you or someone bought the real estate. You have probably lived well most of your life and want to continue to live well the rest of your life. You are looking for things to do that will insure that you will remain in the business and continue the good life.

Since your orientation is toward gasoline, and gasoline is no longer a stand-alone business, you are probably trying to add something to your gasoline offer. Most of you are probably considering the addition of food to be the easiest solution to your problems.

Here is my advice as to three things you need to do:

1. Before you do this, take a good look at the reality of your marketplace. Look at my figures and at other figures. Try to remember that this business is more complicated than just stocking your gasoline facilities with some food products. Try to disabuse yourself of the idea that people will always need to eat so the food business will always be good. Look at the volumes that are necessary to support today's facilities costs and be sure this will really help you to continue to lead the good life.
2. Undertake a program of study to become a retail philosopher. Many of you have the experience and the common sense to become really good retail philosophers. You have the advantage of knowing your customers and your markets. Do what makes sense to you. Make sure you test the things you plan to do against the truths you already know.
3. If you are going to remain in the retail business, learn all you can about it. Recognize there is more to retailing than having a shop and selling things. Study successful retailers and learn how you can combine some of their practices into your philosophy and your retail offer.

There is a retail future for those who can integrate their experience into reality. You are going to have to do things a bit better or a bit cheaper than the other fellow.

John F. Roscoe

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SOUTHLAND COMPOUNDED ANNUAL AVERAGE REAL SALES GROWTH
7-ELEVEN STORES

		Ending Years																
YEAR	Sales *	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
1971	$564	-	2.5%	1.7%	-0.4%	-1.1%	-1.5%	-0.3%	-0.8%	-0.2%	-0.2%	-0.1%	0.4%	0.8%	1.2%	1.2%	1.3%	1.5%
1972	$578	-	-	0.9%	-1.8%	-2.2%	-2.5%	-0.9%	-1.3%	-0.6%	-0.5%	-0.4%	0.2%	0.7%	1.1%	1.1%	1.2%	1.4%
1973	$583	-	-	-	-4.5%	-3.8%	-3.6%	-1.3%	-1.7%	-0.9%	-0.7%	-0.5%	0.1%	0.7%	1.1%	1.2%	1.3%	1.5%
1974	$557	-	-	-	-	-3.1%	-3.1%	-0.2%	-1.0%	-0.1%	0.0%	0.0%	0.7%	1.3%	1.7%	1.7%	1.8%	2.0%
1975	$540	-	-	-	-	-	-3.1%	1.2%	-0.3%	0.6%	0.6%	0.5%	1.2%	1.8%	2.3%	2.2%	2.2%	2.4%
1976	$523	-	-	-	-	-	-	5.7%	1.1%	1.9%	1.5%	1.3%	2.0%	2.5%	3.0%	2.8%	2.8%	2.9%
1977	$553	-	-	-	-	-	-	-	-3.3%	0.0%	0.2%	0.2%	1.2%	2.0%	2.6%	2.4%	2.4%	2.6%
1978	$535	-	-	-	-	-	-	-	-	3.4%	1.9%	1.4%	2.4%	3.1%	3.6%	3.2%	3.2%	3.3%
1979	$553	-	-	-	-	-	-	-	-	-	0.5%	0.5%	2.1%	3.0%	3.6%	3.2%	3.1%	3.3%
1980	$556	-	-	-	-	-	-	-	-	-	-	0.4%	2.8%	3.9%	4.4%	3.8%	3.6%	3.7%
1981	$558	-	-	-	-	-	-	-	-	-	-	-	5.4%	5.7%	5.8%	4.6%	4.2%	4.3%
1982	$588	-	-	-	-	-	-	-	-	-	-	-	-	6.0%	5.9%	4.4%	4.0%	4.0%
1983	$623	-	-	-	-	-	-	-	-	-	-	-	-	-	5.9%	3.6%	3.3%	3.6%
1984	$660	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.4%	2.0%	2.8%
1985	$669	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.7%	3.5%
1986	$687	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4.4%
1987	$717	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* Average sales per store per day in 1971 Dollars. Gasoline not included.

STEPS FOR FINDING AVERAGE ANNUAL REAL STORE SALES GROWTH BETWEEN ANY TWO YEARS:

1) Pick a beginning year from the first column.
2) Follow the row across to the desired ending year column.
3) The result is the average compounded rate of return (or loss) for the period between the two years adjusted for inflation.
For Example: From 1975 through 1987, 7-Eleven had a 2.4% compounded average real rate of return.

Chart prepared by Steve Kaplan

17th Annual DOLLARS PER DAY SURVEY

COMMON STOCK PRICES
ADJUSTED FOR STOCK SPLITS
AS OF DECEMBER 31

COMPANY	1983	1984	1985	1986	1987
GIANT	22 5/8	28 1/2	26 1/2 *	25	34 7/8
PEP BOYS	30	29 1/2	27 *	41 7/8	13 3/4 ***
WALMART	39	37 7/8	31 7/8 *	46 1/2	26 *
CIRCUIT CITY	16 1/4	21 3/8	24 7/8	30 5/8 *	18 3/8
WEIS MARKETS	36 1/8	37	40 3/4 **	37	35 7/8 **
LIMITED	24 1/2	27	31 1/4 *	31 3/4 **	17 1/4
MC DONALDS	70 1/2	51 5/8 **	80 7/8	60 7/8 **	44 **
PRICE COMPANY	64 3/4	41 3/4 *	70	32 3/4 *	32 3/4
TOYS R US	36	38 5/8	35 1/8 **	28 3/4 **	31 1/2
WALGREEN	38 1/4	45	28 1/8 *	32 3/8	30 3/4
CLAIRES STORES	20 3/4	26 3/4 ** / **	11 * / **	8 3/4	3 5/8 ****
PIC N SAVE	19 7/8	19 7/8	30 3/4	21 1/8 **	15 1/8
FAMILY DOLLAR STORES	20 3/4	24 3/8	20 3/8 **	16 3/4	9 7/8

* 2 FOR 1 SPLIT
** 3 FOR 2 SPLIT
*** 3 FOR 1 SPLIT
**** 5 FOR 4 SPLIT

Source: Wall Street Journal
Prepared by Jeremy S. Chapman

17th Annual Dollars Per Day Survey

COMMON STOCK PRICE APPRECIATION
COMPARING
DECEMBER 31 TO DECEMBER 31 OF THE PRIOR YEAR

COMPANY	1984	1985	1986	1987	COMPOSITE GROWTH	AVERAGE ANNUAL INCREASE	PSR* AS OF 12/31/87
GIANT	26.0	86.0	(5.7)	39.5	308.3 %	32.5 %	0.41
PEP BOYS	(1.7)	83.1	55.1	(0.9)	275.0 %	28.8 %	1.54
WALMART	(2.9)	68.9	45.9	11.8	266.6 %	27.8 %	1.23
CIRCUIT CITY	31.5	16.4	147.5	(40.0)	226.2 %	22.6 %	0.40
WEIS MARKETS	2.4	65.5	(9.2)	45.7	223.4 %	22.3 %	1.49
LIMITED	10.2	131.5	53.0	(45.7)	211.2 %	20.6 %	1.04
MC DONALDS	9.8	56.7	13.0	8.6	210.6 %	20.5 %	1.97
PRICE COMPANY	(35.5)	67.7	(6.4)	0.0	202.6 %	19.3 %	0.49
TOYS R US	7.3	34.5	22.8	9.6	196.9 %	18.5 %	1.61
WALGREEN	17.7	25.0	15.1	(5.0)	160.8 %	12.6 %	0.44
CLAIRES STORES	28.9	23.4	(20.5)	(48.2)	147.4 %	10.2 %	0.83
PIC N SAVE	---	54.7	3.0	(28.4)	114.2 %	3.4 %	1.97
FAMILY DOLLAR STORES	17.5	25.4	(17.8)	(41.0)	(28.6)%	(8.1)%	0.51

* PSR is the Price to Sales Ratio

All other figures are expressed as percentages

Prepared by Jeremy S. Chapman
Source: Wall Street Journal

17th Annual Dollars Per Day Survey

PRIMARY EARNINGS PER SHARE

COMPANY	1983	1984	1985	1986	1987
GIANT	1.38	1.52	1.90	1.55	--
PEP BOYS	0.33	0.39	0.43	0.52	--
WALMART	0.35	0.48	0.58	0.80	1.05 e
CIRCUIT CITY	0.61	0.97	0.99	1.59	--
WEIS MARKETS	1.08	1.19	1.30	1.42	1.65 e
LIMITED	0.39	0.51	0.80	1.21	1.50 e
MC DONALDS	1.70	1.95	2.22	2.49	2.87 e
PRICE COMPANY	0.34	0.64	1.01	1.25	1.50 e
TOYS R US	0.72	0.87	0.93	1.17	1.45 e
WALGREENS	1.14	1.33	1.53	1.67	1.68
CLAIRES STORES	0.19	0.33	0.36	0.26	--
PIC N SAVE	0.78	0.83	1.04	1.01	--
FAMILY DOLLAR STORES	0.55	0.83	0.98	1.06	0.86

e = Estimated

Prepared by Jeremy S. Chapman

Source: Standard & Poor's Stock Guide

17th Annual Dollars Per Day Survey

PRICE EARNINGS RATIO AS OF DECEMBER 31

COMPANY	1983	1984	1985	1986	1987
GIANT	9	10	14	15	17
PEP BOYS	16	13	21	28	22
WALMART	33	22	30	33	26
CIRCUIT CITY	10	13	14	23	9
WEIS MARKETS	16	14	23	18	23
LIMITED	24	20	31	30	13
MC DONALDS	13	12	17	17	16
PRICE COMPANY	48	33	35	26	23
TOYS R US	28	21	27	32	25
WALGREEN	17	16	18	19	20
CLAIRES STORES	8	13	23	42	9
PIC N SAVE	13	16	15	20	14
FAMILY DOLLAR STORES	15	20	21	16	11

Compiled by Jeremy S. Chapman
Source: Wall Street Journal

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